

**AN ANALYSIS OF
THE PRESIDENT'S BUDGETARY PROPOSALS
FOR FISCAL YEAR 1979**

Staff Working Paper

January 1978



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**The Congress of the United States
Congressional Budget Office**

NOTES

Unless otherwise indicated, all years referred to are fiscal years. For 1976 and before, fiscal years ran from July 1 through June 30 and were referred to by the years in which they ended. The Congressional Budget Act of 1974 changed the fiscal year to begin on October 1 and end on September 30. The interim between the old and new fiscal years, July 1 through September 30, 1976, is called the transition quarter; fiscal year 1977 began on October 1, 1976.

Details in the text, tables, and figures of this report may not add to totals because of rounding.

PREFACE

This report was prepared at the request of the House Committee on Appropriations to assist Members and staff in preparing for overview hearings on the federal budget on February 1 and 2. The analysis discusses the economic outlook underlying the 1979 budget and the impact on fiscal policy of the President's budgetary proposals. It also examines the major features of the President's revenue and spending proposal and makes comparisons with past trends and current policy as embodied in the Second Concurrent Resolution on the Budget for Fiscal Year 1978.

The analysis was prepared by staffs of the CBO Budget Analysis, Fiscal Analysis, and Tax Analysis Divisions under the supervision of James Blum, William Beeman, and Charles Davenport. The production of the report was supervised by Paula Spitzig, and it was typed for publication by Sue Bailey, Barbara Bakari, Gwen Coleman, Angela Evans, Brice McDaniel, Phyllis Nations, Paula Spitzig, and Deborah Vogt.

Alice M. Rivlin
Director

January 28, 1978

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SUMMARY

The President's budget for fiscal year 1979 recommends outlays of \$500.2 billion, receipts of \$439.6 billion, and a budget deficit of \$60.6 billion. This essentially represents a continuation of present spending policies with only a modest increase above current levels adjusted for inflation. However, the President proposes a major reduction in taxes to offset the effects of inflation and the recently legislated increases in social security taxes, as well as to provide stimulation to the economy to sustain the recovery from the 1974-1975 recession. The following table summarizes the President's proposals for the budget totals.

FEDERAL BUDGET TOTALS: BY FISCAL YEARS, IN BILLIONS OF DOLLARS

	1977 Actual	1978 Estimates		1979 Request
		Second Resolution	President's Estimate	
Outlays	401.9	458.25	462.2	500.2
Receipts	356.9	397.0	400.4	439.6
Deficit (-)	-45.0	-61.25	-61.8	-60.6
Budget Authority	465.2	500.1	502.9	568.2

ECONOMIC OUTLOOK

According to the Administration, the outlook for the economy without a change in fiscal and monetary policies is for continued gains in output and employment during the first half of calendar year 1978, followed by a considerable slowdown in growth during the second half of 1978 and during 1979. This would leave unemployment above 6 percent in both years. To maintain real growth in the 4.5 to 5 percent range, and to reduce unemployment below 6 percent by the end of 1979, the President is proposing tax cuts of \$25 billion and spending increases of \$6 billion from current policy levels in fiscal year 1979.

The Administration's forecasts of economic activity during the next two years given their policy assumptions appear to be reasonable. If, however, monetary policy is more restrictive, the fiscal stimulus could be less and the outlook for the economy weaker than expected. The following table compares the Administration's short-run economic forecast with CBO's forecast including the effects of the President's tax and spending proposals.

COMPARISON OF ADMINISTRATION AND CBO ECONOMIC FORECASTS:
BY CALENDAR YEARS

	Administration Forecast	CBO Forecast With Administration Fiscal Policy Proposals
Economic Growth (percent change in constant-dollar GNP)		
1977 to 1978	4.7	3.9 to 4.9
1978 to 1979	4.8	3.5 to 4.9
Inflation (percent change in the implicit price deflator)		
1977 to 1978	6.1	5.9 to 6.9
1978 to 1979	6.2	6.3 to 7.3
Unemployment Rate (percentage points)		
1978 (4th quarter)	6.2	6.0 to 6.6
1979 (4th quarter)	5.8	5.7 to 6.3

The Administration's forecast of 4.7 percent real economic growth from 1977 to 1978 and 4.8 percent growth from 1978 to 1979 is within the CBO range, although at the high end of the range. The Administration's forecast of 5.8 percent unemployment by the end of 1979 is also within the CBO range, although at the low end. The Administration's forecast of inflation during the next two years is slightly below the CBO range in 1979. To achieve the Administration's growth target, it may be necessary to have more budget stimulus and a somewhat larger budget deficit than proposed by the President for fiscal year 1979.

RECEIPTS

The President has proposed that federal taxes be reduced by \$25 billion in fiscal year 1979. This would be achieved by tax reductions of \$30 billion, mostly in individual and corporate income taxes, and tax increases of \$5 billion from various tax reform proposals. Most of the tax reductions would take effect on October 1, 1978. The tax reforms generally would not be effective until January 1, 1979, with several major reforms being phased in over several years.

The largest reduction would be for individual income taxes which would be lowered by \$18.3 billion (\$22.5 billion in tax cuts partially offset by \$4.2 billion in reforms). For corporations, \$6.3 billion in tax cuts would be offset by \$1.1 billion in reforms, for a net corporate income tax reduction of \$5.1 billion. These reductions are in addition to the \$8.3 billion reduction that would result from extending the general temporary income tax cuts enacted in 1977 (as assumed by current policy estimates). Telephone excise and unemployment insurance taxes also would be reduced by \$1.6 billion.

The President's budget also includes \$1.1 billion in additional revenues in fiscal year 1979 for the net impact of the energy tax measures included in the Administration's energy plan submitted last April. Moreover, the budget also incorporates several smaller revenue recommendations, including waterway user charges and a crude oil excise tax to pay damages and clean up costs of oil pollution. The net effect of all these proposals is to lower 1979 revenues by \$24.3 billion from the Administration's current policy estimate.

The President's income tax proposals would reduce taxes for most individual taxpayers with incomes below \$100,000 but the overwhelming bulk of the reductions (94 percent) would be concentrated on those with incomes below \$30,000. Three-fourths of the net tax reduction would go to those with incomes between \$10,000 and \$30,000, who make up 43 percent of all taxpayers and pay 55 percent of current taxes.

The tax reductions proposed by the President (along with the extension of the 1977 temporary reductions) would be more than enough to offset the aggregate effects of higher social security taxes and inflation-induced increases in individual income taxes in both 1979 and 1980. By 1981, however, the higher taxes resulting from inflation and the social security increases are estimated to exceed the President's tax cuts by \$3 billion, and by \$23 billion in 1983.

SPENDING

The proposed budget for 1979 essentially represents a continuation of present spending policy. Most of the spending increases are mandated by law or actions already taken by the Congress. There are few new spending initiatives. The budget contains only \$200 million in start up funds for welfare reform, no funds for national health insurance which the Administration expects to propose later this year, and no specific funds for a new urban initiative to be proposed in early spring. Spending increases above current policy levels are proposed for national defense, foreign aid, strategic petroleum reserves and energy conservation, the President's energy plan and education and manpower programs.

As shown in the table, the President's budget requests budget authority of \$568.2 billion in fiscal year 1979, 13 percent above the President's estimate for 1978 and 4 to 5 percent above the current policy estimates for 1979. This represents a sharp acceleration in growth for budget authority, primarily for authority provided in annual appropriations. A large part of this increase is to provide financing for programs after 1979.

TOTAL FEDERAL SPENDING: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		Current Level	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	465.2	491.4	502.9	544.3	538.3	568.2
Outlays	401.9	455.2	462.2	494.0	492.4	500.2

If the budget authority is provided as requested, the Administration's outlay estimate of \$500.2 billion for fiscal year 1979 appears to be attainable in the light of past spending patterns. However, the budget estimate of \$462.2 billion for fiscal year 1978--which is \$4 billion above the level specified by the second budget resolution--appears to be too high. The Congressional Budget Office and other analysts of federal spending estimate that total outlays in 1978 will be in the \$450 to \$455 billion range. Thus, it appears unlikely that the second resolution outlay ceiling for 1978 will be exceeded.

The Congress may have problems adhering to the budget authority ceiling specified in the second resolution. The CBO estimated current level of \$491.4 billion in budget authority, assuming enactment of the pending supplemental appropriations bill (H.R. 9375) is \$8.7 billion below the \$500.1 billion ceiling specified in the second budget resolution. However, the Administration's estimate of 1978 budget authority already provided by the Congress and included in the pending supplemental bill is \$9 billion higher than the CBO estimate. Furthermore, the second resolution assumes provision of roughly \$6 billion of budget authority in 1978 not requested by the Administration. If the CBO estimate is raised to eliminate most of the technical estimating differences in permanent budget authority, the second resolution budget authority ceiling may have to be increased to accommodate both the President's and the Congress' additional program proposals in 1978.

LONGER RUN BUDGET OUTLOOK

The President's longer run budget and economic goals include a balanced budget in 1981, a reduction of unemployment to 4 percent by 1983 and a reduction in the rate of inflation to 4 percent, also by 1983. These goals appear to be very optimistic and may not be achievable.

To achieve the desired reduction in unemployment without special employment programs, such as public service jobs, economic growth in real terms will have to average 4.5 to 5 percent for as many as five years. This would represent sustained real growth for eight years, a feat not achieved during peacetime in over a century. On the basis of past experience, additional tax cuts or spending increases will be needed after 1979 to offset the restrictive budget effects resulting from current policy revenues growing faster than expenditures. These additional measures may have to total more than \$60 billion to achieve the President's economic growth objectives. This would probably delay balancing the budget until at least 1983.

Finally, the President's inflation goal, while desirable, will be particularly difficult to achieve simultaneously with a reduction of the unemployment rate below 5 percent. The Administration has proposed a program of voluntary wage-price guidelines for the private sector, but it is too early at this stage to assess the impact of this proposal on the underlying rate of inflation.

CHAPTER I. THE ADMINISTRATION'S FISCAL POLICY AND THE ECONOMY

With the fiscal stimulus proposed in its January budget, the Administration forecasts an increase in real gross national product (GNP) of 4.7 percent from 1977 to 1978 and 4.8 percent from 1978 to 1979. That forecast is at the optimistic end of the Congressional Budget Office (CBO) forecast of economic growth, based on assumptions of fiscal policy that include the Administration's budget proposals. In the absence of any such fiscal or monetary stimulus, the CBO economic forecast indicates that the pace of the expansion is likely to slow significantly in the last half of 1978 and 1979; the unemployment rate is likely to be only slightly lower at the end of 1978 than in recent months and approximately unchanged from late 1978 to late 1979.

The Administration's fiscal proposals--including the energy program--result in net reductions in revenues of approximately \$25 billion and increases in expenditures of approximately \$6 billion, compared with the CBO estimates of current policy.^{1/} The CBO analysis suggests that these changes in fiscal policy, if enacted, would likely generate an additional 0.8 to 1.1 percentage points in real GNP by the end of calendar year 1979 and cause unemployment to decline by 0.2 to 0.4 percentage points, compared with the current policy baseline.

FISCAL POLICY CHANGES IN THE ADMINISTRATION BUDGET

The Administration's budget recommends outlays of \$500.2 billion, receipts of \$439.6 billion, and a budget deficit of \$60.6 billion. This represents a small increase above current policy spending levels, but a significant reduction in revenues from current policy.

^{1/} The CBO estimates of current policy expenditures and receipts for fiscal year 1979 are included in the recently published report, Five-Year Budget Projections: Fiscal Years 1979-1983, Technical Background, January 1978. In that report, current policy outlays for fiscal year 1979 are estimated by CBO to be \$494.0 billion. It is important to realize that these estimates differ from the Administration's current services levels because of differences in assumptions and estimating procedures, as well as differences in the concepts.

The departures from current policies recommended in the Administration budget are summarized in Table 1, on a national income accounts basis. National income and product estimates are used because they are more appropriate for measuring economic impacts than the unified budget concepts used elsewhere in this report. Individual income taxes would be cut by an estimated \$24.9 billion, including \$5.7 billion for the energy proposals. Corporate income taxes would be reduced by \$6.4 billion, including \$1.6 billion for energy proposals. Energy excise taxes would add \$8.9 billion to revenues. Other tax changes account for a reduction of \$2.3 billion. Under spending changes, purchases of goods and services would go up by \$2.2 billion and transfers to persons by \$1.5 billion. Grants to state and local governments would be increased by about \$2.2 billion from current policy.

Tax Changes

The changes in personal taxes would include reductions effective in withholding as of October 1, 1978, partly offset by increases because of reform effective January 1, 1979. In addition, personal taxes would be cut by rebates as part of the proposed energy program. Included in the October 1 changes would be tax credits of \$240 per person rather than the current \$750 deduction per person and the tax credit of \$35, and cuts in tax rates ranging up to 7 percentage points but averaging about 2 percentage points for each bracket.

The personal tax increases, effective January 1, would result in part from changes in rules governing itemized deductions--including repeal of deductions for state and local gasoline and sales taxes--and the treatment of capital gains and income from unemployment insurance benefits.

The cuts in business taxes would include:

- o reducing the maximum corporate income tax rate by 3 percentage points, effective in October 1978, and by an additional 1 percentage point beginning in January 1980;
- o extending the investment tax credit of 10 percent to industrial and utility structures effective retroactively to January 1978; and
- o permitting the investment tax credit to offset up to 90 percent of tax liabilities, instead of the current ceiling of 50 percent, effective January 1979.

TABLE 1. DEPARTURES FROM CURRENT POLICY IN THE
ADMINISTRATION'S BUDGET ON A NATIONAL
INCOME ACCOUNTS BASIS a/: IN BILLIONS OF
DOLLARS

Fiscal Year 1979	
<hr/>	
Tax Changes	
Individual income taxes	-24.9
Tax reduction and reform	-19.2
Energy proposals	-5.7
Corporate income taxes	-6.4
Tax reduction and reform	-4.8
Energy proposals	-1.6
Energy excise taxes	8.9
Other	-2.3
	<hr/>
Total	-24.7
 Spending Changes	
Purchases of goods and services	2.2
Transfer payments to persons	1.5
Grants to state and local governments <u>b/</u>	2.2
	<hr/>
Total	5.9

SOURCES: The Budget of the United States Government, Fiscal Year 1979
and Congressional Budget Office, Five-Year Budget Projections:
Fiscal Years 1979-1983, Technical Background, January 1978.

- a/ The estimates in this table follow national income and product budget categories, which are more useful for measuring economic impacts than the unified budget concepts used elsewhere in this report.
- b/ Approximately \$1.4 billion of the additional grants is allocated for extension of temporary employment assistance at the current service level. This extension is already included in the CBO baseline forecast (discussed in the CBO Report Sustaining Economic Expansion) so this amount is not included in the impact estimates shown in Table 3.

The proposal to extend the investment tax credit would be effective retroactively as of January 1, 1978, while that permitting a larger share of tax to be offset would become effective on January 1, 1979. The retroactive feature has been traditional for proposals affecting the investment tax credit because otherwise businesses might substantially delay currently planned investments to take advantage of future changes in tax laws.

Proposals that would raise business taxes include phasing out, over a three year period, the special treatment of income from Domestic International Sales Corporations and the differential tax treatment on foreign earnings of business income not brought back to the United States. In addition, business deductions for entertainment would be reduced, and provisions permitting more rapid (than straightline) depreciation on most real estate investments would be eliminated.

Other tax proposals include a reduction in the unemployment insurance tax rate from 0.7 to 0.5 percent of employers taxable base, and the elimination of the federal excise tax on telephone service.

The Administration's tax proposals do not include extension of the new jobs credit that was part of the 1977 stimulus legislation. Under current law, the new jobs credit is applicable only to 1977 and 1978.

Expenditure Changes

The Administration proposes increases in outlays of approximately \$5.9 billion for fiscal year 1979, compared with CBO estimated current policy levels, with the principal increases in the areas of education, training, and employment, defense, and energy. Some offsetting decrease are also being proposed.

Under Administration proposals, the public service employment program--which is being increased to 725,000 jobs in 1978 from about 300,000 in May 1977--would be held at the 725,000 level during fiscal year 1979, and the level of youth employment and training programs would be increased. Additional authorization is also being sought for a new program for subsidizing the training by the private sector of youths with severe employment problems. The latter program, however, would not affect outlays until the 1980 budget.

The new budget incorporates the Administration's energy and welfare proposals made in 1977. The energy proposals would raise both tax receipts and outlays for the 1979 budget, but with a sizable portion of the taxes

refunded via lower withholding. 2/ The welfare proposals would have only a very small impact on outlays for fiscal year 1979, involving a pilot employment program. The impact of the welfare proposals, however, would be considerably larger in later budgets, when the proposed policy changes would be implemented. 3/

COMPARISON OF ADMINISTRATION AND CBO ECONOMIC FORECASTS

CBO analyzed the outlook under current policy and then added its estimates of the effects of the changes in fiscal policy proposed by the Administration. The results, summarized in Table 2, indicate that the Administration's forecast of 4.7 percent economic growth in real GNP from 1977 to 1978 and 4.8 percent from 1978 to 1979 is within the CBO range, although it is at the high end of that range. The Administration's forecast of 5.8 percent unemployment by the end of 1979 is also within the CBO range, although it is at the low end. Inflation, between 1978 and 1979, as measured by the implicit price deflator, would be in the 6.3 to 7.3 percent range in the CBO forecast; the Administration inflation forecast is slightly below that range.

The CBO economic outlook under current policy, without the fiscal stimulus proposals, includes a slowdown of economic expansion during 1978, and sluggish development from the end of 1978 to the end of 1979. Unemployment, under current policy, therefore, is expected to be only slightly lower at the end of 1978 than the unemployment rates recorded in recent months, and to remain essentially unchanged or edge up slightly between 1978:4 and 1979:4. In the early months of 1978, expansion in real GNP is apt to be fairly strong because of expected inventory accumulation. But that source of strength is short-lived and more fundamental forces are likely to slow the pace of the expansion.

One of the reasons behind the expected slowing in the economy is that fiscal policy under current legislation becomes more restrictive because of scheduled increases in social security taxes and the effect of inflation on the progressive income tax structure, which causes effective income tax rates to increase significantly.

2/ The impacts of the Administration's energy proposals were analyzed in the Congressional Budget Office report, President Carter's Energy Proposals: A Perspective, Staff Working Paper, June 1977.

3/ CBO is currently analyzing the Administration welfare proposals, and a detailed report is forthcoming.

TABLE 2. A COMPARISON OF FORECASTS BY THE ADMINISTRATION
AND CBO WITH ADMINISTRATION FISCAL PROPOSALS

	Administration Forecast	CBO Forecast With Administration Fiscal Policy Proposals
Economic Growth (percent change constant-dollar GNP)		
1977 to 1978	4.7	3.9 to 4.9
1978 to 1979	4.8	3.5 to 4.9
Inflation (percent change in the implicit price deflator)		
1977 to 1978	6.1	5.9 to 6.9
1978 to 1979	6.2	6.3 to 7.3
Unemployment Rate (percentage points)		
1978 (4th quarter)	6.2	6.0 to 6.6
1979 (4th quarter)	5.8	5.7 to 6.3

SOURCES: The Budget of the United States Government, Fiscal Year 1979,
p. 31, and the Congressional Budget Office.

In addition, an analysis of the major components of demand do not suggest a strong case for rapid expansion after mid-1978. Consumption--a major component of demand--seems unlikely to increase as a share of personal income, since the saving rate is already low by historical standards. Single housing starts are already high and some potential weakness in that sector may develop in late 1978 and 1979 as interest rates rise and funds become less plentiful in the housing market. At this time, survey data suggest that investment will show only moderate increases during 1978. Moreover, the surplus in the budgets of state and local governments and the deficit in the U.S. foreign trade sector act as substantial drags on purchasing power in the economy.

Economic forecasts, such as those of the Administration and CBO, are based on a number of critical assumptions. The CBO forecast assumes that growth in the broadly defined money supply (M2) will be near the upper end of the 6.5 to 9.0 percent target range announced by the Federal Reserve

Board. In addition, it assumes that retail food prices will increase approximately 5 percent per year. If these assumptions are not accurate, the forecast may be inaccurate as well.

FISCAL IMPACTS OF ADMINISTRATION PROPOSALS

The CBO estimates of the economic impact of the Administration's fiscal proposals for the 1979 budget are summarized in Table 3. The changes in taxes are estimated to raise real GNP by approximately 0.5 to 0.7 percentage points by 1979:4, compared with the baseline under current policy; the changes in spending are expected to add another 0.3 to 0.5 percent to real GNP. Altogether, the stimulus to the economy would increase real GNP by an estimated 0.8 to 1.1 percent and lower unemployment by 0.2 to 0.4 percentage points. In addition, the Administration's fiscal program would add about 0.9 to 1.1 percentage points to the price level by 1979:4. The increase in the price level would result primarily from the proposed excise taxes on energy usage.

These estimates of the impact of the Administration fiscal program are applicable to economic conditions expected to prevail in 1978 and 1979, and they are significantly affected by monetary policy. Specifically, the estimates are based on the assumption that monetary authorities provide banks with sufficient reserves to avoid stringent credit conditions. If monetary policy were more accomodative, say, by causing interest rates not to rise, the fiscal stimulus would be more powerful. If the path of money growth were to be kept unchanged, however, the impact of the fiscal stimulus could be less than shown in the table.

Changes in fiscal measures have quite different impacts on the economy, depending on the particular type of change and the state of the economy. For example, the proposed increases in government purchases are likely to have a larger impact on output and employment than an equal loss in a revenue from the proposed reductions in individual income taxes, if such increases are actually implemented. However, it sometimes takes longer to increase spending program levels, resulting in a shortfall between actual and anticipated outlays. A predominant view on the timing of impacts is that changes in business taxes--such as the tax cuts for business proposed by the Administration--operate with longer lags than changes in individual taxes or changes in government purchases. Further, the proposed change in the investment tax credit probably has a larger impact on business investment per dollar than the change in the corporate income tax rate. In addition, tax cuts that lower costs--such as the proposed reduction in the unemployment insurance tax, the elimination of the federal telephone excise tax, and the

tax subsidies for investment--are likely to reduce inflationary pressures compared with reductions in individual income taxes or increases in government purchases. ^{4/}

TABLE 3. CBO ESTIMATES OF THE ECONOMIC IMPACT OF ADMINISTRATION FISCAL POLICY PROPOSALS, BY THE FOURTH QUARTER OF 1979 ^{a/}

Impact on Real GNP (percent)	
Tax changes	0.5 to 0.7
Spending changes	0.3 to 0.5
Total	0.8 to 1.1
Impact of Fiscal Program on Unemployment Rate	
	-0.2 to -0.4
Impact of Fiscal Program on Price Level (percent)	
	0.9 to 1.1

^{a/} Relative to current policy baseline.

LONGER-RUN CONSIDERATIONS

It is also important to consider the implications of proposed changes in the budget over a longer period of time. Projections of the impact of fiscal proposals under fairly rigid assumptions about the path of the private economy, provided by the Administration, suggest that the budget proposals made in the 1979 budget would reduce revenues by \$33 billion in 1983, and increase expenditures by \$37 billion.

It is important to bear in mind, however, that the future course of the economy and the budget are interrelated. In particular the expected growth in revenues depend heavily on the strength in the private economy, and in turn, the strength of the economy depends, in part, on the budget.

On the basis of past experience with the strength of private demands since World War II, it seems likely that substantial additional stimulus will

^{4/} For a more detailed discussion of the economic impacts of different fiscal measures see the forthcoming Congressional Budget Office report, Understanding Fiscal Policy.

be needed after 1979 to offset the inertia exerted on the economy by the tendency for current policy revenues to increase faster than current policy expenditures (see Chapter V).

At this time, the longer-run projections to 1983 by the Administration seem quite optimistic on the inflation front, given the rapid economic growth assumed. The budget projects an inflation rate decrease by approximately one-half percentage point per year after 1979, while the unemployment rate is falling to 4.0 percent toward the end of 1983.

The Administration has proposed a program of voluntary wage-price guidelines for the private sector, but it is too early at this stage to assess the impact of this proposal on the underlying rate of inflation in the economy.

The President's tax reduction and reform proposals would reduce taxes by substantial amounts over the next five years. Without additional cuts beyond those proposed by the President, however, total federal receipts as a percentage of the gross national product (GNP) are likely to exceed the 21 percent limit the President has set as a goal in the 1981-1983 period.

The tax cuts the President has proposed will be sufficient to offset the aggregate effects of higher social security taxes and inflation-induced increases in individual income taxes in 1979 and 1980. Starting around 1981, however, already scheduled social security tax increases and higher taxes resulting from inflation will more than offset the cuts the President has proposed. For many individual taxpayers with incomes above \$20,000, higher social security and inflation taxes will begin to offset the Carter cuts even before 1981.

THE PRESIDENT'S TAX PROPOSALS

As shown in Table 4, President Carter's tax proposals would reduce taxes in 1979 by \$25 billion, and would reduce 1983 taxes by nearly \$35 billion. The net tax cut for individuals in 1979 would be \$18.3 billion (\$22.5 billion in tax reductions offset by \$4.2 billion in revenue-raising reforms), and the net tax cut for corporations would be \$5.1 billion (\$6.3 billion in reductions offset by \$1.1 billion in reforms). In addition, telephone excise and unemployment insurance taxes would be reduced by \$1.6 billion. ^{1/}

The President's tax proposals, with their calendar 1979 and 1983 revenue impacts, are shown in Table 5. Note that these calendar year numbers are somewhat different from the fiscal year numbers shown in Table 4.

^{1/} Tax liabilities for calendar year 1979 (the first full year of the tax cut) would be somewhat different from the fiscal year 1979 tax collections shown earlier. On a calendar year liabilities basis, for example, the total net tax cut for 1979 comes to \$24.5 billion rather than the \$25 billion cited for fiscal year 1979. In addition, the President's package as shown in Table 4 does not include the effects of permanently extending some of the temporary tax cuts provided in the Tax Reduction and Simplification Act of 1977. Extending these cuts would reduce taxes by another \$8.3 billion in fiscal year 1979, and \$22.4 billion in fiscal year 1983. These additional tax reductions are already reflected in the Congressional Budget Office estimates of current policy receipts.

TABLE 4. SUMMARY OF REVENUE EFFECTS OF INCOME TAX REDUCTIONS, TAX REFORMS, AND TELEPHONE EXCISE AND UNEMPLOYMENT INSURANCE TAX REDUCTIONS: BY FISCAL YEARS, IN BILLIONS OF DOLLARS a/

	1979	1980	1981	1982	1983
Individual Income Tax					
Tax reductions	-22.5	-25.7	-29.2	-33.4	-38.5
Tax reforms	4.2	7.4	8.9	10.6	12.3
Net change	-18.3	-18.2	-20.3	-22.8	-26.2
Corporation Income Tax					
Tax reductions	- 6.3	- 9.4	-11.1	-11.8	-12.8
Tax reforms	1.1	3.0	4.3	5.0	5.2
Net change	- 5.1	- 2.0	- 1.6	- 1.2	- 1.1
Telephone Excise and Unemployment Insurance					
Tax reductions	- 1.6	- 2.0	- 1.6	- 1.2	- 1.1
Total	-25.0	-26.6	-28.6	-30.8	-34.9

SOURCE: Department of Treasury.

a/ This table does not include the effects of the President's energy tax proposals or his proposals for waterway user taxes, airport and airway user taxes, and other smaller tax items. The totals are therefore different from those in the receipts tables that appear, in the budget on pages 34, 35, 56, and elsewhere.

TABLE 5. EFFECT OF THE PRESIDENT'S TAX PROPOSALS ON CALENDAR YEAR TAX LIABILITY, FOR 1979 AND 1983: IN MILLIONS OF DOLLARS

	1979	1983
General Tax Reductions		
\$240 credit and reduced tax rates	-23,538	-40,110
Itemized Deduction Changes		
Repeal gasoline tax deductions	862	1,456
Repeal sales tax deductions	2,477	4,184
Repeal miscellaneous tax deductions	569	961
Modify deductions for medical and casualty expenses	1,909	2,898
Repeal political contributions deductions	2	3
Tax Shelters and Other Individual Tax Preferences		
Repeal capital gains alternate tax	140	187
Individual real estate tax shelters	61	514
Taxation of unemployment benefits	212	214
Tax interest element of annuity contracts	12	80
Minimum tax change	284	380
Taxable bond option (individual)	197	2,218
Limit individual investment tax credits to 90 percent of tax before credits	52	79
Tax qualified retirement plans and employee death benefits	32	34
Business Tax Preferences		
Corporate real estate shelters	40	335
Corporate family farm accounting	40	7
Bad debt reserves		
Commercial banks	227	--
Mutual savings banks and savings and loans	37	316
Credit unions	22	171

SOURCE: Department of the Treasury.

(Continued)

TABLE 5. (Continued)

	1979	1983
Business Tax Preferences (continued)		
Entertainment expenses	1,476	2,107
Taxable bond option (corporations)	-15	-150
Phase out DISC over three years	664	1,751
Phase out deferral of tax on foreign source income	88	897
At risk limitation (corporations)	14	6
Nondiscrimination rule for health and group term life plans	32	36
Corporate Rate Reductions		
Corporate tax rate reductions	-5,965	-10,764
Investment Tax Credit Liberalizations		
Increase investment tax credit limit to 90 percent	-882	-205
Extend 10 percent investment tax credit to structures (corporations)	-1,389	-2,268
Extend 10 percent investment tax credit to structures (individuals)	-54	-86
Full investment tax credit for pollution abatement facilities	-93	-144
Total individual	-16,783	-26,988
Total corporate	- 5,704	- 7,905
Subtotal tax reform	-22,487	-34,893
Telephone Excise and Unemployment Taxes		
Repeal telephone excise tax	- 1,200	--
Reduce unemployment payroll tax rate	- 850	- 1,050
Total	-24,537	-35,943

SOURCE: Department of the Treasury.

EFFECT ON THE SIZE AND DISTRIBUTION OF TAX BURDENS

As shown in Table 6, budget receipts as a percentage of GNP would increase from 19.4 percent in 1979 to 21.9 percent in 1983 under current policy. The Carter tax proposals would reduce receipts to 19.3 percent of GNP in 1979 and 21.4 percent in 1983, but the 1983 receipts would still exceed the 21 percent limit President Carter has set as a goal.

TABLE 6. BUDGET RECEIPTS BY SOURCE: SELECTED FISCAL YEARS 1959-1983

	Current Policy a/				President's Proposals			
	1959 b/	1969	1979	1983	1959 b/	1969	1979	1983
	Percent of GNP							
Individual Income Taxes	7.8	9.7	8.7	10.5	7.8	9.7	8.4	10.0
Corporation Income Taxes	3.7	4.1	2.8	3.0	3.7	4.1	2.7	2.8
Social Insurance Taxes and Contributions	2.5	4.4	6.3	6.7	2.5	4.4	6.2	6.6
Excise Taxes	2.2	1.7	0.8	1.0	2.2	1.7	1.1	1.2
Other	0.6	1.0	0.9	0.8	0.6	1.0	0.9	0.8
Total	16.7	20.8	19.4	21.9	16.7	20.8	19.3	21.4
	Percent of Total Receipts							
Individual Income Taxes	46.5	46.5	44.6	47.8	46.5	46.5	43.2	46.8
Corporation Income Taxes	21.9	19.5	14.4	13.6	21.9	19.5	14.2	13.0
Social Insurance Taxes and Contributions	14.8	21.3	32.2	30.5	14.8	21.3	32.3	31.1
Excise Taxes	13.4	8.1	4.2	4.5	13.4	8.1	5.8	5.4
Other	3.4	4.6	4.5	3.7	3.4	4.6	4.5	3.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: The Budget of the United States Government, Fiscal Year 1979, pp. 33, 35, and 477, unless otherwise specified.

a/ Includes extension of temporary tax reductions provided by the Tax Reduction and Simplification Act of 1977, except for the countercyclical jobs tax credit. Also includes extension of expiring gasoline and airport and airway taxes.

b/ 1959 numbers as a percent of GNP were taken from Treasury Bulletin, February 1968, p. 2, and The Budget of the United States Government, Fiscal Year 1979, p. 486. 1959 number as a percent of total receipts were taken from Treasury Bulletin, February 1968, p. 2.

The composition of budget receipts has changed substantially over the last 20 years, with an increasingly larger share being accounted for by payroll taxes, and an increasingly smaller share by corporation income taxes. Social insurance or payroll taxes accounted for only 14.8 percent of total receipts in 1959, while under both current policy and the President's proposals they are expected to account for over 32 percent of total receipts in 1979. The payroll tax share of total receipts is estimated to decline slightly between 1979 and 1983 under both current policy and the President's proposals.

Corporation income taxes accounted for 21.9 percent of total receipts in 1959. By 1979, however, they are expected to account for only a little more than 14 percent of total receipts under both current policy and the President's proposals. The corporate income tax share is estimated to fall even further by 1983, to 13.6 percent under current policy and 13.0 percent under the Carter proposals.

The individual income tax share of total receipts is estimated to increase from 1979 to 1983 under both current policy and the President's proposals, largely because of the impact of inflation under the progressive individual income tax system. The individual income tax share is estimated to be somewhat smaller in fiscal year 1983 under the Carter proposals, however, increasing to 46.8 percent compared to 47.8 percent under current policy.

Effect on Individual Tax Burdens

President Carter's tax reduction and reform proposals would result in a net tax reduction for most individual taxpayers with incomes below \$100,000, but the overwhelming bulk of the reductions (94 percent) would be concentrated on taxpayers with incomes below \$30,000. The distribution of the net tax reduction under the President's proposals is shown in Table 7. As indicated there, 75 percent of the net reduction goes to taxpayers with incomes between \$10,000 and \$30,000, who make up 43 percent of all taxpayers and pay 55 percent of current income taxes.

The President's proposals would lower effective tax rates for the average taxpayer in all income classes below \$100,000 a year (see Table 8). The effective tax rate for those in the \$10,000 to \$15,000 income class would drop from 9.0 to 7.6 percent, for example, while the effective rate for those in the \$30,000 to \$50,000 class would drop from 17.6 to 16.8 percent. For those in income classes above \$100,000, the average effective tax rate would increase.

TABLE 7. DISTRIBUTION OF PRESIDENT'S PROPOSED TAX REDUCTIONS
AND REFORMS BY INCOME CLASS: 1976 LEVELS OF INCOME ^{a/}

Expanded Income Class b/ (\$000)	Number of Returns (Thousands)	Percent of Total Returns	Present Law Tax Liability (\$millions)	Percent of Total Tax Liability	Amount of Tax Reduction (\$ millions)	Percent of Total Tax Reduction
Less than 5	25,474	28.9%	141	0.1%	392	3.4%
5-10	20,109	22.9%	8,227	6.1%	1,859	15.9%
10-15	16,106	18.3%	18,071	13.4%	2,710	23.2%
15-20	11,824	13.4%	23,009	17.0%	2,861	24.5%
20-30	9,907	11.3%	32,778	24.2%	3,185	27.3%
30-50	3,347	3.8%	22,017	16.3%	1,046	9.0%
50-100	985	1.1%	16,492	12.2%	148	1.3%
100-200	198	0.2%	8,084	6.0%	-177 ^{c/}	-1.5% ^{c/}
200 and over	49	0.1%	6,476	4.8%	-362 ^{c/}	-3.1% ^{c/}
	87,998	100.0	135,293	100.0	11,660	100.0

SOURCE: Treasury Department.

^{a/} The Treasury Tax Model, upon which this table is based, has not yet been updated to reflect 1978 income levels. The estimates for each income class are therefore based on the average incomes, deductions, and credits for all taxpayers in that income class in 1976. At 1978 income levels, taxpayers would be shifted into higher income classes, and deductions and credits would generally be higher.

^{b/} Expanded income is a broader concept than the "adjusted gross income" concept that appears on income tax returns and that the Treasury has used for tax analysis tables in previous years. Expanded income includes the untaxed half of capital gains, percentage depletion in excess of cost, depreciation in excess of straight line, and other "tax preference" items included in the minimum tax; however, it excludes investment interest up to the amount of investment income. It therefore comes closer to "real" total economic income than does the usual adjusted gross income figure.

^{c/} Tax increase.

TABLE 8. EFFECTIVE TAX RATES BY INCOME CLASS UNDER THE PRESIDENT'S TAX REDUCTION AND REFORM PROPOSALS: 1976 LEVELS OF INCOME, a/, IN PERCENTS

Expanded Income Class <u>b/</u> (\$000)	Effective Tax Rate	
	Current Law	President's Proposals
Less than 5	0.2	- 0.4 <u>c/</u>
5 - 10	5.5	4.3
10 - 15	9.0	7.6
15 - 20	11.2	9.8
20 - 30	13.8	12.5
30 - 50	17.6	16.8
50 - 100	24.4	24.2
100 - 200	29.5	30.2
200 - over	30.0	31.7
	12.4	11.3

SOURCE: Treasury Department

- a/ The Treasury Tax Model, upon which this table is based, has not yet been updated to reflect 1978 income levels. The estimates for each income class are therefore based on the average incomes, deductions, and credits for all taxpayers in that income class in 1976. At 1978 income levels, taxpayers would be shifted into higher income classes, and deductions and credits would generally be higher.
- b/ Expanded income is a broader concept than the "adjusted gross income" concept that appears on income tax returns and that the Treasury has used for tax analysis tables in previous years. Expanded income includes the untaxed half of capital gains, percentage depletion in excess of cost, depreciation in excess of straight-line, and other "tax preference" items included in the minimum tax; however, it excludes investment interest up to the amount of investment income. It therefore comes closer to "real" total economic income than does the usual adjusted gross income figure.
- c/ Tax refunds exceed tax liabilities.

Table 9 shows the average tax change, resulting from the President's tax reduction and reform proposals, for a family of four in different income classes. As indicated there, the largest percentage reduction in tax burdens would go to those with incomes below \$15,000, while the largest tax savings in terms of actual dollars would go to those with incomes between \$20,000 and \$30,000.

TAX CUTS, SOCIAL SECURITY TAXES, AND INFLATION

The tax cuts proposed by President Carter (along with the extension of 1977 tax cuts scheduled to expire in December 1978) would be more than enough to offset the aggregate effects of higher social security taxes and inflation-induced increases in individual income taxes in both 1979 and 1980. Starting in 1981, however, the higher taxes resulting from inflation and already scheduled social security tax increases are estimated to exceed the Carter tax cuts by \$2.7 billion, and by 1983 these tax increases are estimated to exceed the tax cuts by \$22.7 billion (see Table 10).

President Carter has stated in his budget that the anticipated effects of higher social security taxes and inflation-induced income tax increases "would be another reason to consider further tax reductions" in the 1981-1983 period.

For many higher-income taxpayers, however, the effects of inflation and increased social security taxes will more than offset the Carter tax cuts even before 1981. As shown in Table 11, for a family of four with a 1979 income of \$30,000, social security and inflation tax increases would exceed the Carter tax cut by \$224 in 1980. For a four-person family with a 1979 income of \$40,000, social security tax increases alone would exceed the Carter tax cut by \$43 in 1979.

Families with lower incomes would do better under the Carter tax proposals. For a family of four earning \$10,000, social security and inflation tax increases would not exceed the Carter tax cuts until 1983, and then by only \$80. A family earning \$20,000 would come out ahead through 1980, and would fall behind by only \$6 in 1981 and \$91 in 1982.

SOME POSSIBLE ALTERNATIVES

The President's tax reduction and reform proposals can obviously be adjusted in a number of different ways, depending on the desired tax and fiscal policy goals. In his Tax Message of January 21, however, the

TABLE 9. AVERAGE TAX CHANGE BY INCOME CLASS (JOINT RETURN, TWO DEPENDENTS): 1976 LEVELS OF INCOME a/

Expanded Income Class b/ (\$000)	Average Tax Present Law (dollars)	Average Tax Under Proposal (dollars)	Average Tax Change (dollars)	Percentage Change (percent)
Less than 10	9	-79 <u>c/</u>	-88	-975.6
10-15	867	589	-278	-32.1
15-20	1,739	1,461	-278	-16.0
20-30	3,117	2,780	-337	-10.8
30-50	6,287	5,979	-308	-4.9
50-100	16,336	16,088	-248	-1.5
100-200	40,885	41,087	202	0.5
200 and over	127,666	130,473	2,807	2.2

SOURCE: Treasury Department.

a/ The Treasury Tax Model, upon which this table is based, has not yet been updated to reflect 1978 income levels. The estimates for each income class are therefore based on the average incomes, deductions, and credits for all taxpayers in that income class in 1976. At 1978 income levels, taxpayers would be shifted into higher income classes, and deductions and credits would generally be higher.

b/ Expanded income is a broader concept than the "adjusted gross income" concept that appears on income tax returns and that the Treasury has used for tax analysis tables in previous years. Expanded income includes the untaxed half of capital gains, percentage depletion in excess of cost, depreciation in excess of straight line, and other "tax preference" items included in the minimum tax; however, it excludes investment interest up to the amount of investment income. It therefore comes closer to "real" total economic income than does the usual adjusted gross income figure.

c/ Tax refund.

TABLE 10. IMPACT OF POTENTIAL TAX CHANGES: 1978-1983

	1978	1979	1980	1981	1982	1983
New Tax Proposals in Carter Budget:						
Individual	-1.7	-23.9	-26.5	-29.3	-33.5	-39.6
Corporate	-0.6	- 6.4	- 8.6	- 9.6	- 9.8	-10.6
Excises <u>a/</u>	1.8	6.8	12.1	15.3	17.1	19.4
Other Items	--	- 0.8	- 0.3	- 0.2	- 1.6	- 1.8
Subtotal	-0.5	-24.3	-23.3	-23.7	-27.8	-32.6
Extension of Provisions Previously Scheduled to Expire:						
Individual	--	- 7.2	-12.8	-13.5	-14.8	-15.6
Corporate	--	-1.1	- 2.6	- 4.2	- 6.4	- 6.8
Excises	--	--	4.5	5.7	5.9	6.2
Subtotal	--	- 8.3	-10.9	-12.0	-15.3	-16.2
1977 Social Security Changes (Public Law 95-216) <u>b/</u>						
	--	3.4	8.8	16.4	23.5	26.5
Increase in Individual Tax Burdens because of Inflation <u>c/</u>						
	--	6.0	14.0	22.0	33.0	45.0
Total Change in Burden Expected by Stated Year						
	-0.5	-23.2	-11.4	2.7	13.4	22.7

a/ New excise taxes consist mainly of energy items still pending in conference. These collections will be largely rebated, so the fiscal effect of the energy program will be small.

b/ Includes both employer and employee share.

c/ These CBO estimates reflect the added tax burden for individuals, resulting from graduated taxation of inflation-caused income growth.

President warned against increasing the net tax cut by reducing or eliminating the revenue-raising reforms he has proposed, saying:

[T]he full cuts in personal and corporate tax rates which I recommend would not be desirable in the absence of significant reform [F]iscal prudence will require significantly reduced tax cuts for low- and middle-income taxpayers if we cannot help finance the reductions I have proposed through enactment of these revenue-raising reforms.

There has also been some discussion of an earlier effective date for the tax cuts. The proposed individual and corporate tax cuts are not scheduled to go into effect until October 1, 1978, the start of the 1979 fiscal year. If they were to be put into effect earlier, it would be necessary to pass a Third Concurrent Resolution on the Budget for Fiscal Year 1978 to accommodate the additional revenue loss. (Although the proposed changes in the investment tax credit would apply to investments made after January 1, 1978, this change is not expected to have any effect on fiscal 1978 tax collections.)

CBO's forthcoming economic report ^{2/} discusses as one fiscal stimulus option a \$15 billion tax cut starting July 1, 1978. This earlier tax cut is estimated to result in a small additional reduction in unemployment by the end of calendar year 1978. This option has less stimulative effect in 1979, however, than other options that provide a larger \$25 billion tax cut starting on October 1. This change in policy from the second concurrent resolution probably would be justified only if there were a pressing need for additional stimulus in the latter part of calendar 1978.

^{2/} See the forthcoming Congressional Budget Office Economic Report, Sustaining Economic Expansion.

TABLE 11. CHANGES IN INDIVIDUAL TAX BURDENS FOR
SELECTED REAL INCOMES RESULTING FROM CARTER
TAX PROPOSALS, SOCIAL SECURITY TAX INCREASES,
AND INFLATION (FOUR PERSON, ONE-EARNER
FAMILIES): IN 1979 DOLLARS

	1979	1980	1981	1982	1983
<hr/>					
\$10,000					
Equivalent income <u>a/</u>	10,000	10,560	11,151	11,776	12,435
Tax reductions because of Carter proposals	-312	-313	-320	-320	-320
Increase in tax burden because of inflation <u>b/</u>	--	77	164	254	350
1977 social security changes <u>c/</u>	8	8	39	47	50
Net Effect	<u>-304</u>	<u>-228</u>	<u>-117</u>	<u>-19</u>	<u>80</u>
 \$20,000					
Equivalent income <u>a/</u>	20,000	21,120	22,303	23,552	24,871
Tax reduction because of Carter proposals	-270	-280	-289	-300	-316
Increase in tax burden because of inflation <u>b/</u>	--	94	192	297	411
1977 social security changes <u>c/</u>	83	60	103	94	99
Net Effect	<u>-187</u>	<u>-126</u>	<u>6</u>	<u>91</u>	<u>194</u>

(Continued)

a/ 1979 incomes are increased by an assumed 5.6 percent annual rate of inflation.

b/ Liabilities under 1977 tax law are at the same average tax rate as would be imposed on the equivalent real income in 1979. This result could be achieved by adjusting all individual credits, deductions, and bracket boundaries in proportion to the change in prices reflected. Increased tax burdens result from graduated taxation of inflation-caused increases in income.

c/ Employee share only.

TABLE 11. (Continued)

	1979	1980	1981	1982	1983
\$30,000					
Equivalent income <u>a/</u>	30,000	31,680	33,454	35,328	37,306
Tax reduction because of Carter proposals	-322	-306	-289	-269	-247
Increase in tax burden because of inflation <u>b/</u>	--	177	364	569	838
1977 social security changes <u>c/</u>	260	353	595	658	706
Net effect	<u>-62</u>	<u>224</u>	<u>670</u>	<u>958</u>	<u>1,297</u>
\$40,000					
Equivalent income <u>a/</u>	40,000	42,240	44,605	47,103	49,471
Tax reductions because of Carter proposals	-218	-186	-158	-116	-263
Increase in tax burden because of inflation <u>b/</u>	--	284	589	949	1,530
1977 social security changes <u>c/</u>	261	353	595	658	706
Net effect	<u>43</u>	<u>451</u>	<u>1,026</u>	<u>1,491</u>	<u>1,973</u>

a/ 1979 incomes are increased by an assumed 5.6 percent annual rate of inflation.

b/ Liabilities under 1977 tax law are at the same average tax rate as would be imposed on the equivalent real income in 1979. This result could be achieved by adjusting all individual credits, deductions, and bracket boundaries in proportion to the change in prices reflected. Increased tax burdens result from graduated taxation of inflation-caused increases in income.

c/ Employee share only.

CHAPTER III. FEDERAL SPENDING

The budget proposed by the President for fiscal year 1979 essentially represents a continuation of present spending policy. Most of the spending increases are mandated by law or actions already taken by the Congress. There are few new spending initiatives. The level of federal spending relative to the size of the total economy would be reduced slightly, consistent with the President's stated goal.

The President's budget estimates total outlays for 1979 at \$500.2 billion. This is 9 percent above the \$458 billion outlay level specified in the Second Concurrent Resolution on the Budget for Fiscal Year 1978. However, it is only a little more than 1 percent above the estimated current policy outlay level of \$494 billion for 1979--a level that assumes spending policies embodied in the second resolution are extended one year, with allowance for inflation, economic growth, and demographic change.

As shown in Table 12, the growth in total budget authority would be greater in the President's budget than the growth in outlays. The budget requests total budget authority of \$568.2 billion for 1979, about 13 percent above the level specified for 1978 in the second budget resolution, and over 4 percent above the estimated 1979 current policy level. This represents a sharp acceleration of growth in budget authority. The 1978 estimates of total budget authority are only 8 percent above the actual 1977 level, largely because of the growth in permanent authority for such programs as social security and interest on the public debt. For 1979, the President's budget proposes a 12 percent increase in budget authority made available through appropriations actions, compared to only a 3 percent growth in such authority between 1977 and 1978. A large part of this increase is to provide financing for programs after 1979.

This chapter evaluates the Administration's spending estimates and provides a summary discussion of the President's spending proposals for fiscal year 1979. Chapter IV provides further details of the President's spending proposals, within each major functional category, representing national needs. Chapter V discusses the outlook for the federal budgets for 1980 to 1983.

TABLE 12. TOTAL FEDERAL SPENDING: BY FISCAL YEARS, IN BILLIONS OF DOLLARS

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		Second Resolution	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	465.2	500.1	502.9	544.3	538.3	568.2
Outlays	401.9	458.25	462.2	494.0	492.4	500.2

ACCURACY OF SPENDING ESTIMATES

The Administration's estimate of total outlays for fiscal year 1979 appears to be reasonable in light of past trends. The Administration's estimate of fiscal year 1978 outlays, however, appears to be too high, thus continuing the trend of the past two years, when outlays estimated by the President's budget have been considerably higher than actual outlays.

Outlays have been misestimated for a variety of reasons, including errors in the underlying economic assumptions and unpredictable changes in credit market conditions. The major source for misestimates of outlays, which are widespread throughout the budget, is a pervasive and persistent upward bias in agency estimates. This may result from a combination of the natural optimism of agencies about their abilities to implement programs and the conservative tendency of program managers to husband their resources through most of the year to meet unanticipated needs or to avoid overspending appropriations.

Both the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) have taken steps to improve the accuracy of their outlay estimates. ^{1/} The need for accurate outlay estimates has

^{1/} For further details, see Office of Management and Budget, Overview of the Current "State-of-the-Art" of Federal Outlay Estimating, Technical Staff Paper, December 15, 1977, and Congressional Budget Office, Estimates of Federal Budget Outlays, Staff Working Paper, January 1978.

increased with the enactment of the Congressional Budget Act of 1974. Under this act, the Congress each year adopts binding limits on spending and revenue legislation. The Congress is prohibited from considering any legislation that would cause the spending total specified in the second or subsequent budget resolution to be exceeded. Overestimates of outlays could prevent the Congress from taking action on desirable spending items because the Congressionally adopted outlay ceilings might be violated. Also, the suspicion that outlays have been overestimated could lead some Members of Congress to propose "spending the shortfall," thus undermining the budgetary control discipline intended by the resolutions.

1978 Estimates

The President's 1979 budget estimates that outlays in fiscal year 1978 will total \$462.2 billion, or \$4 billion above the level specified by the second budget resolution. The President's estimate assumes that outlays would increase by 15 percent over the 1977 level, a rate of increase achieved only once in the last 10 years. The second budget resolution for 1978 implies a growth of 14 percent for total outlays, which is also high by historical standards. During the past 10 years, federal outlays have grown at an average annual rate of slightly below 10 percent.

It is likely that the Administration has overestimated outlays for fiscal year 1978. The latest CBO scorekeeping estimate of the current level of 1978 outlays, assuming enactment of the pending supplemental appropriations bill (H. R. 9375), is \$455 billion. ^{2/} The consensus view of the major New York banking and investment firms is that 1978 outlays will be near \$450 billion. These firms monitor federal spending on a daily, monthly, and annual basis to guide their purchases and sales of government securities. In recent years, the federal spending estimates by these firms have been more accurate than the OMB estimates. The Conference Board's latest estimates for fiscal year 1978 budget outlays are in the \$450 to \$455 billion range. ^{3/}

Actual spending during the first quarter of fiscal year 1978 was \$113.3 billion, or 14.5 percent above the rate for the comparable three-month period in fiscal year 1977. This relatively high rate of spending

^{2/} Congressional Budget Office, 1978 Congressional Budget Scorekeeping Report No. 5, as of December 15, 1977, end of session.

^{3/} The Conference Board, The Federal Budget: Its Impact on the Economy, No. 3 Fiscal 1978, November 1977.

occurred primarily because of an acceleration of outlays by the Commodity Credit Corporation (CCC). Other budget outlays in the first quarter of 1978 were 12.1 percent above the level in the first quarter of 1977. If this rate continues and the CCC outlays do not rise above the Administration's estimate for the year, 1978 outlays would total \$454 billion.

Thus, assuming no new major policy initiatives that would change the spending assumptions of the second resolution, it seems highly unlikely that 1978 budget outlays could be as high as the level specified in the second resolution or estimated in the President's 1979 budget. Rather, total outlays for fiscal year 1978 will probably be \$3 to \$8 billion lower than the \$458 billion resolution level, and \$7 to \$12 billion below the Administration's latest estimate.

The Congress may, however, have problems adhering to the budget authority ceiling specified in the second resolution for fiscal year 1978. Assuming enactment of H.R. 9375, the current level of budget authority is estimated by CBO to be \$491 billion, about \$9 billion less than the \$500 billion level specified by the second budget resolution. The CBO estimate includes provision for the October 1, 1977, payraises (with no absorption) and supplemental appropriations for several entitlement programs. This estimate will be revised during the next month to incorporate new information provided in the President's 1979 budget.

It is highly likely that the CBO estimate of 1978 budget authority will be raised by several billions of dollars, reflecting reestimates of spending under permanent authority, such as higher than assumed foreign military sales and CCC authority to spend public debt receipts. This upward revision in the estimated current level of budget authority for 1978 will reduce the room available for certain items assumed in the second budget resolution, such as forward funding of CETA public service employment programs (\$3.8 billion) and new energy spending initiatives (about \$3 billion). Other upward pressures on the 1978 budget authority level include the Administration's request of \$543 million in budget authority and outlays to settle states' prior year claims under Title XX of the Social Security Act, and the Administration's proposal to participate in the Supplemental Financing Facility of the International Monetary Fund (the U.S. share is about \$1.7 billion, but the Administration is requesting only \$200 million in budget authority to cover the contingency of an exchange loss). ^{4/}

^{4/} See Chapter IV for further details.

1979 Estimates

The President's budget estimate of \$500.2 billion for total outlays in fiscal year 1979 appears to be realistic in light of historical spending patterns. Assuming that 1978 outlays will be in the \$450 to \$455 billion range, the Administration's estimate for 1979 implies a growth of 10 to 11 percent, which is in line with growth rates of federal spending during recent years.

The Congressional Budget Office will review carefully the Administration's spending estimates for 1979 and will provide the Appropriations and Budget Committees with independent estimates where appropriate.

SPENDING TRENDS

During the past 10 years, federal outlays increased from \$158 billion in fiscal year 1967 to \$402 billion in fiscal year 1977. As stated above, this represents an average annual increase of slightly less than 10 percent. The President's budget essentially would continue this rate of increase for fiscal year 1979, correcting for the Administration's probable overestimate of outlays in fiscal year 1978.

Real Growth

A large portion of the past growth in federal spending has been attributable to the effects of inflation. Therefore, it is useful to set aside these effects in analyzing budget trends. Measured in constant dollars, the recent growth in federal spending has been significantly less than when calculated in current prices. As shown in Table 13, total budget outlays in real terms increased by only 28 percent between 1967 and 1977. When measured in current prices, total budget outlays increased by 154 percent during this period.

The annual real growth in federal spending has averaged 2.5 percent during the past 10 years. Correcting for the probable Administration overestimate of 1978 outlays, the President's budget for 1979 essentially would continue the recent trend of real growth in federal spending.

Spending Relative to GNP

Another way to examine federal spending trends is to compare budget outlays to the gross national product (GNP), the most widely used measure

TABLE 13. GROWTH IN BUDGET OUTLAYS: BY FISCAL YEAR

	1967	1974	1977	1978 Estimate		1979 Request
				CBO	OMB	
Total Budget Outlays (in billions of dollars)						
In current prices	158	270	402	455	462	500
In constant (1972) prices	212	232	272	288	293	297
Ratio of Federal Spending to GNP (in percents)						
In current prices	20.4	19.8	21.9	22.2	22.6	22.0
In constant (1972) prices	21.3	18.9	20.6	20.8	21.2	20.5

SOURCE: The Budget of the United States Government, Fiscal Year 1979,
and the Congressional Budget Office.

of the size of the economy. During the past 10 years, federal spending has increased at a somewhat faster rate than the total economy. Consequently, total budget outlays as a percent of GNP rose from 20.4 percent in fiscal year 1967 to 21.9 percent in fiscal year 1977.

Most of the increase in this ratio occurred in fiscal year 1975, largely as a result of the 1974-1975 recession. The effect of the recession was to raise federal spending (for such programs as unemployment compensation, food stamps, public service jobs, and welfare payments) and to lower GNP from what it would have been under a higher employment economy. Federal spending has continued at fairly high levels relative to GNP since fiscal year 1975, as part of the government's efforts to stimulate the economy.

The President's budget for 1979 would have the effect of holding federal spending to about the same level relative to GNP--22 percent--as occurred in 1977. The President has stated that his goal is to eventually limit federal spending to 21 percent of GNP.

Spending Mix

The major trend in the mix of federal spending during the past 10 years has been the rapid increase in the share of the budget allocated to

payments for individuals--such as social security, medicare and medicaid, veterans' benefits, food stamps, and public assistance. As the same time, the share of the budget allocated to national defense has fallen markedly. Table 14 shows three measures of the change in budget composition between 1967 and 1977 and the effect of the President's estimates for 1978 and 1979.

The President's budget would halt the decline in the relative share of the budget allocated to national defense and reduce slightly the share allocated to payments for individuals. There would be little change in the relative shares of the budget between 1978 and 1979. National defense spending in fiscal year 1979 is estimated by the Administration to be \$118 billion, or slightly less than 24 percent of total budget outlays, which is almost the same proportion as in fiscal year 1977. This would provide for some real growth in defense spending for the third year in a row. Prior to 1976, defense spending in real terms dropped by 35 percent over an eight-year period. The share of total outlays allocated to payments for individuals is expected to decline from 45 percent of total outlays in 1977 to 43 percent in 1979, largely as a result of reduced spending for unemployment compensation.

CHANGES FROM CURRENT POLICY

In analyzing the President's spending proposals for fiscal year 1979, it is useful to compare the budget to estimates of federal spending if current policies were simply continued.

Special Analysis A of the 1979 budget provides the Administration's estimates of the cost of current spending policies in 1979. The Congressional Budget Office has also published estimates of 1979 spending, as implied by the policies assumed for the second budget resolution for 1978. ^{5/} Although CBO and OMB used somewhat different assumptions about the economy, the effects of inflation, and the treatment of pending legislation (such as medicare and medicaid cost controls), the estimates of total current policy spending for 1979 are quite similar. The difference between the two estimates for total outlays, for example, is only three-tenths of 1 percent. The differences are greater, however, for many functional categories of spending. Tables 15 and 16 provide a comparison of the President's 1979 budget proposals with the OMB and CBO estimates of current services or current policy spending by major functional categories.

^{5/} See Congressional Budget Office, Five-Year Budget Projections: Fiscal Years 1979-1983, December 1977.

TABLE 14. COMPOSITION OF BUDGET OUTLAYS: BY FISCAL YEARS

	1967	1974	1977	1978 Estimate	1979 Estimate
In Billions of Dollars					
National Defense	68.2	77.8	97.5	107.6	117.8
Payments for Individuals	40.1	111.1	181.7	196.9	214.5
Net Interest	10.3	21.5	30.0	35.2	39.9
All Other	39.7	59.3	92.7	122.4	128.0
Total	158.3	269.6	401.9	462.2	500.2
Percentage Distribution					
National Defense	43.1	28.8	24.3	23.3	23.6
Payments for Individuals	25.3	41.2	45.2	42.6	42.9
Net Interest	6.5	8.0	7.5	7.6	8.0
All Other	25.1	22.0	23.1	26.5	25.6
Total	100.0	100.0	100.0	100.0	100.0
As a Percentage of GNP					
National Defense	8.8	5.7	5.3	5.3	5.2
Payments for Individuals	5.2	8.2	9.9	9.6	9.4
Net Interest	1.3	1.6	1.6	1.7	1.8
All Other	5.1	4.3	5.0	6.0	5.6
Total	20.4	19.8	21.9	22.6	22.0

SOURCE: The Budget of the United States Government, Fiscal Year 1979, Table 20.

TABLE 15. CURRENT POLICY/SERVICES ESTIMATES AND THE PRESIDENT'S BUDGET PROPOSALS FOR FISCAL YEAR 1979
BUDGET AUTHORITY: BY FUNCTION, IN BILLIONS OF DOLLARS

	Current Policy/Services		President's Request
	CBO	OMB	
National Defense	127.0	126.4	128.4
International Affairs	9.6	11.5	13.8
General Science, Space, and Technology	5.2	5.2	5.2
Energy	8.1	6.9	9.5
Natural Resources and Environment	13.5	12.2	12.7
Agriculture	5.1	6.6	7.2
Commerce and Housing Credit	5.5	6.5	6.6
Transportation	15.5	15.5	18.6
Community and Regional Development	9.4	7.2	7.7
Education, Training, Employment, and Social Services	27.3	29.1	33.6
Health	52.0	52.1	52.6
Income Security	197.8	189.2	190.9
Veterans' Benefits and Services	21.0	18.6	19.1
Administration of Justice	4.0	3.9	4.1
General Government	3.9	4.2	4.4
General Purpose Fiscal Assistance	9.4	9.5	16.6
Interest	46.6	48.7	49.0
Allowances	1.3	1.2	4.2
Undistributed Offsetting Receipts	-18.1	-16.0	-16.0
Total	544.1	538.3	568.2

TABLE 16. CURRENT POLICY/SERVICES ESTIMATES AND THE PRESIDENT'S BUDGET PROPOSALS FOR FISCAL YEAR 1979
OUTLAYS: BY FUNCTION, IN BILLIONS OF DOLLARS

	Current Policy/Services		President's Request
	CBO	OMB	
National Defense	118.3	116.8	117.8
International Affairs	7.2	7.4	7.7
General Science, Space, and Technology	5.1	5.1	5.1
Energy	8.7	7.6	9.6
Natural Resources and Environment	13.2	12.0	12.2
Agriculture	7.0	5.5	5.4
Commerce and Housing Credit	3.7	3.1	3.0
Transportation	17.1	17.1	17.4
Community and Regional Development	10.1	8.5	8.7
Education, Training, Employment, and Social Services	27.8	29.4	30.4
Health	47.7	50.3	49.7
Income Security	160.2	159.2	160.0
Veterans' Benefits and Services	20.7	18.9	19.3
Administration of Justice	4.0	4.1	4.2
General Government	3.9	4.2	4.3
General Purpose Fiscal Assistance	9.4	9.5	9.6
Interest	46.6	48.7	49.0
Allowances	1.4	1.1	2.8
Undistributed Offsetting Receipts	-18.1	-16.0	-16.0
Total	494.0	492.4	500.2

The bulk of the proposed increase in federal spending in fiscal year 1979 over the current year is mandated by existing law, such as social security benefits, or is the result of budget decisions already made by the Congress, such as appropriations for defense procurement. Most of the remaining portion of the proposed increase is to maintain the real purchasing power of government purchases of goods and services. Table 17 provides details on the CBO and OMB estimates of increases in outlays between 1978 and 1979.

TABLE 17. ESTIMATED INCREASES IN FEDERAL OUTLAYS UNDER CURRENT POLICY FOR FISCAL YEAR 1979: BY MAJOR PROGRAM, IN BILLIONS OF DOLLARS

	CBO Estimate	OMB Estimate
Increases Mandated under Existing Law		
Social security	10	11
Medicare and medicaid	5	6
Pay increases for federal employees	4	4
Net interest	4	4
Public assistance and other income supplements	3	a/
Retired military pay and civil service retirement	2	2
Defense purchases	2	3
Farm price supports	-1	-3
SBA disaster loans	a/	-1
Farmers Home Administration lending activities	a/	-1
All other spending (net)	6	5
Subtotal	35	30
Further Adjustments for Inflation		
Maintain 1978 level of defense purchases	2	2
Maintain 1978 level of grants and other federal purchases	3	2
Cost-of-living increase for veterans' benefits	1	1
Subtotal	6	5
Total	41	35

a/ \$500 million or less.

The CBO and OMB estimates of increased spending in 1979 mandated under existing law and fully adjusted for inflation are very similar except for farm price supports, public assistance and other income supplements (such as food stamps and supplemental security income), Small Business Administration disaster loans, and the Farmers Home Administration lending activities.

The net effect of the new legislation (excluding extensions of existing legislation) proposed in the President's budget would be to add less than \$1 billion on a net basis to budget outlays in 1979. The new legislative proposals, however, would add \$12 billion in budget authority in 1979. The major increase (\$7 billion) is to provide interest subsidies of 35 to 40 percent to states and localities for the issuance of taxable bonds instead of tax exempt securities. Legislation is also proposed to contain medicare and medicaid hospital costs and to reduce certain security benefits. This would reduce 1979 outlays by \$1.3 billion and, according to OMB estimates, lower federal spending by \$12 billion in 1983. Outlays for other legislative proposals would rise from \$1.6 billion in 1979 to \$16.6 billion in 1983. Table 18 lists the new legislative proposals included in the President's budget that would affect 1979 spending.

TABLE 18. PRINCIPAL NEW LEGISLATIVE PROPOSALS INCLUDED IN THE PRESIDENT'S 1979 BUDGET: BY FUNCTION, IN MILLIONS OF DOLLARS a/

	Budget Authority	Outlays
National Defense		
Wage-board reform	-136	-135
Retired military personnel and other legislation	69	69
Strategic stockpile sales	-177	-177
Energy		
Automobile fuel-efficiency tax refunds	500	500
Uranium enrichment charges	-163	-163
Natural Resources and Environment		
Oil pollution liability and compensation fund	180	50

a/ Changes from OMB estimates of the current services level in fiscal year 1979.

(Continued)

TABLE 18. (Continued)

	Budget Authority	Outlays
Agriculture		
Price support and related programs	478	--
Transportation		
Highway grant programs	551	--
Urban mass transit program	2,426	--
Education, Training, Employment, and Social Services		
New authorities under Title I of ESEA	400	28
Impacted school aid	-76	-58
Child welfare services	85	64
Health		
Medicare and medicaid cost containment	-95	-724
Adolescent health services and pregnancy prevention	60	20
Income Security		
Social security benefit reductions	15	-644
Unemployment tax rate reduction	-200	--
Crude oil equalization tax refund	1,333	1,333
School lunch and other nutrition programs	-217	-216
Operating subsidy for financially troubled FHA projects	74	52
Veterans' Benefits and Services		
Compensation cost-of-living and pension improvements	421	395
Readjustment benefits	-100	-100
Medical care insurance reimbursement	-142	-142
General Purpose Fiscal Assistance		
Taxable municipal bond option	7,094	99
Mineral impact loan assistance	40	40
Allowances		
Wage-board reform	-47	-45
Total	12,373	246

The President's budget requests an increase of \$17.4 billion in budget authority above the OMB estimated current services level for fiscal year

1979 under existing legislative authority. This would add an estimated \$7.5 billion in outlays in 1979. Some of the major proposals included in the President's request are:

- o increased spending for defense programs, emphasizing further modernization and expansion of U.S. military capabilities, particularly for U.S. NATO efforts;
- o increases for foreign economic assistance programs;
- o substantial increases for the strategic petroleum reserve and energy conservation programs;
- o forward funding of 1980 programs for impacted school aid, vocational rehabilitation, and human development for the aged;
- o deletion of emergency farm disaster loans under the Small Business Act;
- o no new starts or cancellations for water resources projects; and
- o continued funding for 725,000 public service jobs, and a new private sector jobs initiative.

Table 19 provides a summary of the proposed 1979 increases above current services levels, by major function. Further details on the President's proposals are provided in Chapter IV of this report.

Major New Social Initiatives

The Administration expects to submit legislation for national health insurance during this year. However, since this legislation will not affect federal spending before 1981, no funding is provided in the 1979 budget for this major new initiative.

The Administration is also planning to submit proposals in the early spring on a major new urban revitalization initiative. No specific funds are included in the 1979 budget for this initiative, although the budget does provide for an increase in funds for various programs that aid urban areas. Also, the allowance for contingencies in the 1979 budget is larger than for previous years.

The budget assumes that the President's welfare reform proposal will be enacted this year, and provides \$200 million in start-up funds in fiscal

TABLE 19. PROPOSED CHANGES FROM CURRENT SERVICES FOR
FISCAL YEAR 1979 UNDER EXISTING LEGISLATIVE
AUTHORITY: BY FUNCTION, IN MILLIONS OF DOLLARS

	Budget Authority	Outlays
National Defense		
Department of Defense--Military	1,954	957
Atomic energy and other defense-related activities	349	275
International Affairs		
Foreign economic and financial assistance	1,978	233
Other programs	330	49
Energy		
Strategic petroleum reserve	1,769	1,079
Other programs	583	636
Natural Resources and Environment		
Water resources	-243	-225
Other programs	560	400
Agriculture	150	-72
Commerce and Housing Credit	100	-143
Transportation	47	283
Community and Regional Development		
SBA disaster loans	-150	-82
Economic development assistance	245	62
Other programs	398	185
Education, Training, Employment, and Social Services		
Advance funding for impact aid and human development services	2,036	--
Employment and training assistance	873	522
Other programs	1,132	448
Health	554	75
Income Security		
Housing assistance	441	84
Other programs	271	234
Veterans' Benefits and Services	308	215
Administration of Justice	260	155
General Government	145	90
Allowances		
Contingencies for other requirements	3,000	1,700
All Other	319	310
Total	17,409	7,470

SOURCE: Special Analyses, The Budget of the United States Government,
Fiscal Year 1979, Special Analysis A.

year 1979. The President's 1979 budget estimates that the total additional costs of the Administration's welfare reform proposal in fiscal year 1982--the first full year of operations--will be \$9 billion. The Congressional Budget Office, however, estimates that the net cost to the federal budget of the Administration's proposal would be \$17 billion in 1982. The CBO estimate of \$42 billion for total program costs is \$3 billion higher than estimated by the Administration, largely because of the use of different economic and demographic assumptions and different data bases. CBO also estimates that the savings to be achieved by program consolidations and offsets in other federal costs will be \$5 billion less than estimated by the Administration. Table 20 compares the Administration and CBO cost estimates for the President's welfare reform proposal.

TABLE 20. COMPARISON OF CBO AND ADMINISTRATION COST ESTIMATES FOR THE PRESIDENT'S WELFARE REFORM PROPOSAL: FISCAL YEAR 1982, IN BILLIONS OF DOLLARS

	CBO	Administration
Welfare Reform Program Costs		
Cash payments	28.1	26.0
Jobs program	11.5	9.9
Earned income tax credit	2.6	3.0
Subtotal	42.3	38.8
Savings in Other Federal Costs	24.9	30.0
Net Budget Impact	17.4	8.8

FEDERAL CREDIT ACTIVITIES

The President's 1979 budget provides more information than usual about federal credit activities. The budget also indicates that the Administration will propose to the Congress this year a set of procedures for achieving better control over credit programs.

Federal lending and loan guarantees are a large and growing means of providing government services. The total volume of new loans and loan

guarantees by the federal government, including off-budget entities such as the Federal Financing Bank, are expected to be \$98 billion in fiscal year 1979, which is 28 percent above the actual level of new loans in fiscal year 1977. This will bring the total level of outstanding loans and loan guarantees at the end of fiscal year 1979 to \$360 billion.

While plans for direct and guaranteed loans under individual federal credit programs are reviewed each year during the budget process, there is no systematic mechanism in the Congress or the Executive Branch for reviewing the volume of total federal credit activity. Consequently, there is no systematic way to consider the resource allocation effects of loans and loan guarantees, nor the reasonableness of the total volume. In order for the government to make efficient allocations of resources and effective fiscal policy, it must exercise control over federal credit activities in a manner similar to other spending activities.

Some of the basic elements likely to be included in the Administration's proposals for achieving better control over federal activities are listed here. 6/

- o The President would review the plans for federal credit activities during the annual budget process. He would establish overall ceilings on the volume of new loans and loan guarantees, based on an analysis of the impact of federal lending activity on the allocation of available resources, the general economy, and financial markets.
- o The President would propose and request Congressional approval of limitations in annual appropriations acts on the amounts of new direct loans and loan guarantees for each program.
- o The Congress would establish similar controls in its budget process, including ceilings on aggregate lending activity in the annual budget resolutions.

6/ For a detailed analysis of the impact of federal loan guarantees and an analysis of options for exercising more effective control, see the forthcoming study of loan guarantees prepared by the Congressional Budget Office for the Senate Budget Committee.

CHAPTER IV. THE BUDGET BY FUNCTION

This chapter discusses the President's spending proposals for fiscal year 1979 in each major functional category. The functional classification is used as the basis for discussing national budget priorities in the deliberations by the Congress on the annual budget resolutions.

In keeping with the requirement of Section 601 of the Congressional Budget Act of 1974, the functional classifications presented in the President's 1979 budget have been refined to provide a sharper focus on national needs, agency missions, and major programs. The most significant changes to the budget functions used for the 1978 budget requests and resolutions are listed here.

- o Energy has been established as a separate function (270). Energy programs previously were included with natural resources and environment programs (function 300).
- o Transportation programs alone now constitute function 400. These programs previously were grouped with commerce and housing credit programs, which have been established as a separate function (370).
- o Military assistance programs have been shifted from the national defense function (050) to the international affairs function (150).
- o The health function has been restructured to identify more clearly the major missions in the health area.

Several functional and subfunctional titles have been changed to clarify the major needs and missions being served by various federal programs. All revisions in the functional classifications were made in close consultation with the Appropriations and Budget Committees of both Houses of Congress, as required by the budget act.

The Congressional Budget Office (CBO) estimates of 1978 spending and 1979 current policy levels shown in the tables presented in this chapter have been adjusted to the new functional classifications. The CBO 1978 estimates are derived from the fifth CBO scorekeeping report for 1978, which provided estimates of the level of federal spending that would result from Congressional actions taken as of December 15, 1977, the end of the

first session of the 95th Congress. These estimates include the conference agreement on the Supplemental Appropriations, 1978 (H. R. 9375), as well as estimates of entitlement authority and other mandatory items requiring further appropriation action. 1/

The CBO estimates of 1979 current policy spending are derived from the CBO budget projections report issued in December 1977. These estimates are based on the Second Concurrent Resolution on the Budget for Fiscal Year 1978, and include discretionary adjustments for inflation. The Office of Management and Budget (OMB) current services spending estimates in general do not include discretionary adjustments for inflation, except for Department of Defense programs. The CBO current policy estimates for 1979 also include spending for legislation items anticipated in the 1978 second budget resolution but not yet enacted, such as cost controls for the medicare and medicaid programs. The OMB 1979 current services estimates omit all proposed and pending legislation. The economic assumptions underlying the CBO and OMB current policy and current services estimates also differ slightly. 2/

The CBO 1978 spending and 1979 current policy estimates will be revised during February to reflect the new information on federal spending patterns contained in the President's 1979 budget, as well as possible changes in the underlying economic assumptions. These revised estimates will be used by the Budget Committees in formulating the first budget resolution for 1979.

Finally, it should be noted that, in the "1978 President's Estimate" column in the following tables, the cost of the October 1, 1977, payraise is shown in the allowances function rather than distributed by function and

1/ For further details, see Congressional Budget Office, 1978 Congressional Budget Scorekeeping Report, Report No. 5 (as of December 15, 1977, end of session).

2/ For further details, see Congressional Budget Office, Five-Year Budget Projections: Fiscal Years 1979-1983, December 1977, Five-Year Budget Projections: Fiscal Years 1979-1983, Technical Background, January 1978, and Office of Management and Budget, Special Analyses, Budget of the United States Government, Fiscal Year 1979, "Special Analysis A, Current Services Estimates," January 23, 1978.

program, as is done in the President's 1978 budget proposals. The cost of the anticipated federal employee payraise for October 1, 1978, is shown in the allowances function in both sets of 1979 estimates.

It also should be noted that the estimates shown in the tables are in millions of dollars.

NATIONAL DEFENSE (FUNCTION 050)

This function includes programs in Department of Defense--Military that provide for the pay and allowances for military personnel, the maintenance of forces, construction of appropriate military facilities, research and development, and the procurement of support and major combat equipment. It also provides funding for atomic energy defense activities and various defense related activities such as the Intelligence Community Staff, Renegotiation Board, and Selective Service System.

Function Totals

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	110,432	118,342	117,813	127,307	126,384	128,439
Outlays	97,501	107,842	107,626	118,523	116,794	117,779

The military assistance programs that comprised subfunction 052 in the fiscal year 1978 budget have been transferred to the 150 function in the fiscal year 1979 budget. Three additional programs in the Department of Energy have been transferred to the 053 subfunction from other functions. These are addressed below in the discussion of atomic energy defense activities.

The \$128,439 million fiscal year 1979 budget authority request for function 050 is an increase of about \$10.1 billion over the fiscal year 1978 CBO estimate. It represents a 1.6 percent growth over the Administration's current services estimate but less than 1 percent growth over the CBO current policy estimates.

The principal reason for this different assessment of growth stems from the different economic assumptions and deflators used by CBO and the Administration. The CBO projects an aggregate defense purchase deflator of 8 percent and a pay increase of 7.3 percent for fiscal year 1979. The Administration projects a purchase deflator of 6 percent and a pay increase of 6 percent. To the extent that inflation and government payraises exceed 6 percent in fiscal year 1979, the Defense program is underfunded.

Military Personnel

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	26,118	26,056	26,065	27,772	27,479	27,211
Outlays	25,715	25,609	25,615	27,420	27,122	26,866

From fiscal year 1978 to fiscal year 1979 military personnel appropriations increased by a total of \$1,146 million. This is less than the amount CBO estimates to be necessary to cover inflation. These accounts include decreases of 20,000 in active military end strengths and 14,000 in the reserves. The savings that are achieved from this decline in end-of-year strengths are offset by three main new initiatives. One of these extends overseas travel and transportation benefits to dependents of junior enlisted personnel, which is estimated to cost \$102.9 million. Another new initiative is lump-sum bonus payments, costing \$57 million. This would provide payment of reenlistment bonuses on a lump-sum basis rather than on an installment plan. The third new initiative costing \$7.3 million substitutes a 24-month overseas tour for first term Army bachelors for the current 36-month tour. Other savings are achieved by reducing permanent change of station (PCS) travel (-\$36.8 million) and active duty longevity or average years of service (-\$34.7 million). There is a \$10 million cost associated with grade creep.

Retired Pay, Defense

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	8,238	9,103	9,240	9,935	10,149	10,149
Outlays	8,216	9,105	9,211	9,933	10,122	10,122

The 1978 supplemental budget request includes \$230 million for fiscal year 1978 military retired pay. This is approximately \$137 million more than the request anticipated by CBO, primarily because of different estimates of the net growth in the retired population. The request for fiscal year 1979 anticipates a net increase of 43,000 members to the retirement rolls and other increases due to cost-of-living adjustments that occur twice during the year.

This account funds the retirement benefits paid during the fiscal year to all military personnel who will have retired before the end of that year; it does not anticipate the retirement costs of current military personnel in the future. The military retirement benefits earned during fiscal year 1979 amount to about \$7 billion; that amount does not currently appear anywhere in the budget request. However, the budget proposes to:

- o provide by law for an independent assessment of annual accrued retirement and unfunded liability;
- o establish a trust fund from which to pay military retirees;
- o fund accrued military retirement benefits in the military personnel appropriations;
- o provide for appropriation of funds to liquidate the present unfunded liability; and
- o display accrued costs in the national defense function and the payments to retirees in the income security function.

This proposal plus alternatives that would provide for long term retirement savings through longer military careers and lower personnel turnover are discussed in recent CBO papers. 3/

Operation and Maintenance

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	32,108	33,510	33,935	36,297	36,399	37,376
Outlays	30,587	32,310	32,560	35,898	35,655	36,454

The fiscal year 1979 request for operation and maintenance contains approximately \$1.5 billion for anticipated inflation and another \$1.0 billion for program growth. Approximately \$130 million of program growth is for the transportation of ammunition to Europe, prepositioning of materiel, and force structure additions to the U.S. Army forces in Europe. The remaining program growth is due to increases in unit training and weapons system operations (to include about \$100 million in reserve forces) as well as support programs and contractual services. Civilian strength is projected to decline by about 13,000 to 1,008,000; 6,000 of the decline would be made up through contractual services while 4,200 is due to an accounting change with respect to indirect hire foreign nationals.

3/ Congressional Budget Office, The Military Retirement System: Options for Change, Budget Issue Paper for FY 1979, January 1978. Also Congressional Budget Office, Retirement Accounting Changes: Budget and Policy Impacts, Background Paper April 1977.

A legislative proposal to reform the wage board pay system would result in an estimated savings of \$136 million in fiscal year 1979 and \$2.0 billion over 1979-1983 most of which would be in operation and maintenance. For more detail, see the discussion pertaining to allowances.

Legislation will be resubmitted to end dual compensation of federal employees who serve in the National Guard or Reserves. Civilian pay during active military service will be only the amount necessary to assure no loss of take-home pay, saving \$30 million in fiscal year 1979.

Procurement, Total

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	27,922	30,035	29,545	32,389	31,954	31,928
Outlays	18,178	21,760	21,552	24,996	24,072	24,208

Overall, procurement represents a real decline in budget authority of 1.4 percent when the fiscal year 1979 request is compared with the fiscal year 1979 CBO current policy estimate.

The level of funding in millions of current dollars varies significantly from service to service, as shown in the following table.

Procurement Funding (in millions of dollars)

	<u>FY 1978</u>	<u>FY 1979</u>	<u>Change</u>
Army	5,198	6,637	1,439
Navy/Marine Corps	14,112	13,919	-193
Air Force	10,397	11,091	694
Defense Agencies	328	281	-47
Total	30,035	31,928	1,893

Although the Army and Marine Corps are equipped with similar weapons and equipment, it appears that the defense funding priorities in fiscal year 1979 reflect an emphasis on the Army's NATO role.

Procurement, Army

Major increases in the Army are concentrated in communications and electronics equipment (56 percent), aircrafts (44 percent), missiles (34 percent) and ammunition (30 percent), with less increase in weapons and tracked combat vehicles (6 percent). The increase in communications and electronics equipment reflects added funds for most types of equipment with a concentration in tactical electronic support equipment. The increase in funds for aircraft results from the buildup in fiscal year 1979 of the Blackhawk helicopter production. Missile procurements funds increase as a result of a rise in procurement of surface-to-air missiles.

Tank procurement in fiscal year 1979 is lower than in fiscal year 1978 (-\$148 million). The fiscal year 1979 program contains the first production orders for the new XM-1 tank, as well as continued orders for the older M-60 tank at a level of production lower than in fiscal year 1978. Procurement of other tracked combat vehicles is slightly higher than in fiscal year 1978 despite deferral of initial production of the Infantry Fighting Vehicle (IFV).

Procurement, Navy/Marine Corps

Navy/Marine Corps procurement declines almost 9 percent in real terms from fiscal year 1978 to fiscal year 1979. Real increases are budgeted for Aircraft Procurement (7 percent) and Other Procurement (16 percent), while sharp real declines are budgeted in Shipbuilding and Conversion (25 percent) and Procurement, Marine Corps (21 percent).

Although the total number of aircraft ordered in fiscal year 1979 declines slightly from the fiscal year 1978 program, total dollars increase in fiscal year 1979 largely because of the high start-up costs (\$351 million) associated with the initial production of the F-18 aircraft. There are also large increases (\$170 million) budgeted for modification of aircraft.

A comparison of the ship procurement programs shows:

	<u>Fiscal Year 1978</u>	<u>Fiscal Year 1979 Request</u>
Fleet Ballistic missile submarines	2	1
Other warships	11	9
Auxiliaries	5	5
Total ships	<u>18</u>	<u>15</u>

Approximately half of the real decline between fiscal year 1978 and fiscal year 1979 in Shipbuilding and Conversion (25 percent) is attributable to the proposed order of one Trident submarine in fiscal year 1979 compared with two Trident submarines ordered in fiscal year 1978. The order of a single Trident in fiscal year 1979 does not represent a policy change as it is consistent with the long-term program of a 1-2-1-2 annual buying pattern.

Overall, it appears that the fiscal year 1979 Navy procurement program reflects a reduction in F-14 aircraft to accommodate the new F-18 aircraft, a shift away from the acquisition of large surface ships and the rejection of the policy of the previous Administration calling for a large increase in surface Navy ship orders in fiscal year 1979.

Procurement, Marine Corps shows a large real decline (21 percent) in budget authority from the fiscal year 1978 program. Budget authority declines for weapons and combat vehicles, guided missiles and support vehicles.

The only area where an increase occurs in fiscal year 1979 over fiscal year 1978 is in communications and electronics where there are large increases primarily associated with night vision devices (\$40.0 million) and radar sets (\$38 million).

Procurement, Air Force

Overall, Air Force procurement shows little net change in real terms between fiscal year 1978 and 1979. Increased aircraft procurement (2 percent) is offset by a 12 percent real decline in missile procurement, primarily as a result of completion of the Minuteman Force Modernization Program. Procurement of the first two Advanced Tanker Cargo Aircraft (\$157 million) accounts for over half of the growth in the Aircraft Procurement account.

Procurement, Defense Agencies

The reduction in the fiscal year 1979 procurement program of the Defense Agencies is due primarily to a reduction in classified programs.

Research, Development, Test, and Evaluation

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	10,439	11,347	11,338	12,271	12,020	12,468
Outlays	9,795	10,621	10,714	11,732	11,600	11,861

The fiscal year 1979 Research, Development, Test, and Evaluation (RDT&E) program reflects overall real growth in budget authority of about 1.6 percent when compared to the fiscal year 1979 CBO current policy estimate.

Budget authority increases in research and exploratory development (\$203 million), management and support (\$181 million), advanced development (\$810 million), and operational systems development (\$395 million) are

partially offset by a decline in engineering development (-\$458 million). The increase in advanced development is attributable to increases in programs such as the division air defense gun (\$59 million), space shuttle (\$45 million), and aerospace ocean surveillance (\$37 million). The MX strategic missile remains in advanced development with funding programed to increase from \$134 million in 1978 to \$158 million in 1979. The decline in engineering development occurs primarily because of the cancellation of the B-1 bomber development (-\$338 million) and the fact that the F-16 and F-18 aircraft are past their peak level of development funding (-\$240 million).

The real increases in budget authority for research, exploratory development, and advanced development appear to reflect a continuation of the policy evident since fiscal year 1977 of increasing the level of activity in the basic, more generalized type of research and development as opposed to the development of specific weapons.

Approximately \$75 million of additional budget authority would be required in fiscal year 1979 to offset credit in fiscal year 1978 for the recoupment of R&D costs associated with foreign military sales reimbursements. Effective in fiscal year 1979 the recoupments of these "sunk costs" will be credited directly to the Treasury rather than being made available as new obligational authority in the research and development accounts.

Military Construction

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	2,204	1,632	1,633	1,744	1,909	2,677
Outlays	1,914	2,083	1,919	1,719	1,941	1,976

Military construction in the fiscal year 1979 request is about \$0.9 billion above the CBO current policy projections which was based on a fiscal year 1978 program that resulted from a partial moratorium on domestic new construction. The fiscal year 1979 construction program includes facilities to reinforce NATO mainly, hardened aircraft shelters and command and control centers, forward storage facilities for prepositioned materiel, and alternative runways for airfields. These facilities amount to approximately 25 percent of the fiscal year 1979 request. Other parts of the request address medical facilities, the space shuttle program, and various pollution abatement and energy conservation projects.

Allowances

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	--	2,673	2,161	2,756	2,371	2,305
Outlays	--	2,593	2,161	2,763	2,353	2,288

The Administration's fiscal year 1979 budget allowance for payraises assumes a 6 percent general schedule raise, a 3.4 percent wage board payraise, and a 12 percent reallocation of the military payraise to the quarters allowance as was done for fiscal year 1978. The CBO estimate for this allowance assumes a 7.3 percent general schedule and wage board raise and the same 12 percent reallocation of the military raise.

The 3.4 percent wage board raise is the result of a legislative proposal to reform the pay system by revising the step structure in each pay grade, by repealing the Monroney amendment, which requires the use of out-of-area wage data in federal wage surveys under certain conditions, by changing the night shift differential to a fixed amount per hour rather than the percentage now used, and by broadening the wage surveys to include state and local governments. Passage of this legislation would result in an

average 3.4 percent payraise instead of the higher percent projected under current law for a savings of \$136 million in fiscal year 1979 and \$2.0 billion over five years.

Atomic Energy Defense Activities

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	2,089	2,512	2,512	2,725	2,663	2,829
Outlays	1,936	2,319	2,308	2,600	2,446	2,536

In the fiscal year 1979 budget three programs are to be funded in this subfunction that are funded in other functions in fiscal year 1978; they are inertial confinement fusion, intelligence and arms control, and nuclear materials security and safeguards, for a total of \$0.2 billion. The remaining \$2.6 billion are for naval reactor development, weapons activities, and special materials production, which is a net increase of about \$0.2 billion or 8 percent over the CBO current policy estimate for these three programs. The CBO estimates shown in the table are adjusted for the change in budget presentation.

Other National Defense

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,315	1,473	1,384	1,418	1,440	1,495
Outlays	1,160	1,442	1,585	1,463	1,472	1,468

The fiscal year 1979 budget request for family housing totals \$1.5 billion, of which about \$0.1 billion is for construction projects and \$1.4 billion for operation and maintenance. There are no major changes in the other accounts that make up this area (i.e., revolving and management funds and other miscellaneous accounts of DoD-Military, all of Defense-Related Activities (subfunction 054), and the accounts for offsetting receipts).

INTERNATIONAL AFFAIRS (FUNCTION 150)

The international affairs function includes foreign economic and financial assistance, military assistance, activities associated with the conduct of foreign affairs, foreign information and exchange activities, and international financial programs. The budget for 1979 brings military assistance into the function, making its budget treatment consistent with the appropriations process.

Function Totals

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	6,587	6,504	11,069	9,627	11,493	13,801
Outlays	4,831	6,774	6,716	7,152	7,408	7,690

The \$13.8 billion request for fiscal year 1979 represents an increase of \$2.7 billion over the President's estimate for fiscal year 1978, and an increase of \$4.2 billion over the CBO current policy estimate for fiscal year 1979. Three programs, contributions to international financial institutions, the Export-Import Bank and the foreign military sales trust fund, account for much of the growth in the request for fiscal year 1979. In addition, some programs for which funds were appropriated or requested for fiscal year 1978, such as the balance of payments loan for Portugal, and U.S. participation in the Supplementary Financing Facility of the International Monetary Fund, are replaced in the request for fiscal year 1979 by increases in bilateral development assistance.

Security Supporting Assistance

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,758	2,219	2,219	2,348	1,854	1,854
Outlays	1,062	1,786	1,813	2,021	1,666	1,666

NOTE: CBO's estimates in this table include funds for the Middle-East Special Requirements Fund, and U.N. Forces in Cypress.

Security supporting assistance provides economic aid to selected countries of importance to U. S. foreign policy objectives. Of the \$2.2 billion appropriated for 1978, \$1.7 billion went to Middle Eastern countries (\$1.5 billion to Israel and Egypt), \$0.3 billion for a balance-of-payments loan to Portugal, and the \$0.2 billion balance went to other countries, predominantly those in southern Africa. The 1979 request of \$1.9 billion is an amount sufficient to continue programs at roughly 1978 levels, with the exception of the loan to Portugal.

Bilateral Development Assistance: Functional Development Assistance, the Sahel Development Program, and the Operating Expenses of the Agency for International Development

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,051	1,194	1,194	1,267	1,327	1,613
Outlays	707	947	959	1,038	1,072	1,162

The functional development assistance program supports the efforts of less developed countries to meet the fundamental needs of their people, through programs emphasizing food and nutrition, population planning, health, education, and other development activities. The request for fiscal year 1979 of \$1,262 million represents an increase of 35 percent, or \$331 million, over the level appropriated for fiscal year 1978. Because a balance of unobligated authority exists to finance program activity during fiscal year 1978, the increase in budget authority from fiscal year 1978 to fiscal year 1979 is estimated only to maintain the level of programming for fiscal year 1978. That level of activity, however, represents an increase of 55 percent above the actual level of obligations incurred during fiscal year 1977.

The International Development and Food Assistance Act of 1977 authorizes the appropriation of \$200 million for the U.S. portion of a multinational effort to increase food self-sufficiency and living standards in the Sahelian region of Africa. Fifty million dollars was appropriated for fiscal year 1978 to support U.S. participation in that effort. The budget requests the appropriation of an additional \$90 million for fiscal year 1979.

The request for fiscal year 1979 of \$261 million for the operating expenses of the Agency for International Development represents an increase of \$42 million above the level requested for fiscal year 1978.

Public Law 480 Food Aid

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,169	923	923	545	806	806
Outlays	850	928	1,068	948	1,069	1,069

The Agricultural Trade Development and Assistance Act of 1954, as amended, authorizes the appropriation of funds to cover the costs of the concessional sales and commodity disposition programs authorized by that act. If amounts appropriated are greater than actual net program costs (outlays), the excess is used to finance future program costs and reduce future appropriations requests. By the end of fiscal year 1977, appropriations had exceeded costs by \$408 million. This amount may be used to finance program costs in fiscal years 1978 and 1979.

CBO's estimates of outlays for fiscal years 1978 and 1979 are \$261 million less than the President's estimates. Because the appropriation for fiscal year 1978 has already been enacted, the CBO estimate of the budget authority required to finance fiscal year 1979 program costs is \$261 million less than the amount requested for fiscal year 1979.

Contributions to International Financial Institutions

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,414	1,926	1,926	1,954	1,926	3,505
Outlays	875	854	838	748	844	909

The \$3.5 billion request for fiscal year 1979, which exceeds both the CBO current policy level and the level appropriated for fiscal year 1978 by \$1.6 billion, reaffirms the Administration's policy--previously demonstrated by the Administration's request for appropriations of \$2.6 billion for fiscal year 1978--to support strongly multilateral development assistance programs. The request reflects a departure from recent policy, however, by including amounts requested, but not appropriated, for previous years. In the recent past, rather than including such amounts in the budget year request, supplemental appropriations have been sought for the current year to restore those amounts.

The request for fiscal year 1979, therefore, includes \$2.7 billion for scheduled contributions and capital subscriptions, and \$0.8 billion for contributions and capital subscriptions for which funds were requested but not appropriated for fiscal years 1977 and 1978. The request, together with the levels appropriated for fiscal year 1978, is described in the following table.

	Fiscal Year 1978	Fiscal Year 1979		
		Scheduled	Requested <u>a/</u>	Total
International Bank for Reconstruction and Development	380.0	523.0	143.0	665.9
International Development Association	800.0	1,175.0	375.0	1,550.0
International Finance Corporation	38.0	33.4	6.6	40.0
Inter-American Development Bank	480.0	650.0	264.0	914.0
Asian Development Bank	217.5	263.6	46.1	309.6
African Development Fund	10.0	25.0	--	25.0
Total	1,925.5	2,670.0	834.6	3,504.6
(Paid in	1,103.7	1,566.1	562.5	2,128.6)
(Callable	821.8	1,103.9	272.1	1,376.0)

a/ These estimates were also requested for 1977 and 1978, but were not appropriated.

The request for fiscal year 1979 includes \$1.4 billion in callable capital subscriptions and \$1.9 billion for contributions to the concessional affiliates of the banks, such as the International Development Association and the Special Fund for Operations of the Inter-American Development Bank. Callable capital, which serves as a guarantee of the institutions' borrowing in private markets, has never been drawn and is estimated not to outlay. Contributions to the soft loan affiliates of the banks, once made, are committed for particular development projects. The institutions will actually draw the funds from the U.S. Treasury, however, as required for the projects. Outlays from these contributions, therefore, occur over a period of years, with a relatively small percentage falling in fiscal year 1979. As a consequence, outlays during fiscal year 1979 from the request of \$3.5 billion are estimated to equal only \$0.9 billion.

Military Assistance

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	676	616	589	670	541	541
Outlays	494	551	457	557	465	465

The budget for fiscal year 1979 transfers the military assistance category from the national defense budget function to the international affairs budget function. The new category in the international affairs function includes grant military assistance, international military education and training, foreign military sales credits, a number of expiring programs and offsetting receipts (such as, interest and principal payments associated with military sales credits). The foreign military sales trust fund, which was included in the military assistance category in the national defense function, has been transferred to a separate category within the international affairs function.

The request for fiscal year 1979 is \$129 million less than the CBO current policy estimate and \$75 million less than the current CBO estimate for fiscal year 1978 (CBO's estimate for fiscal year 1978 reflects amounts actually appropriated for fiscal year 1978; the President's estimate for that year includes a proposed rescission of \$40 million for grant military assistance, a proposed supplemental of \$5 million for foreign military sales credits and makes minor adjustments to the estimates of offsetting receipts). In fiscal year 1978, funds for grant military assistance were requested and appropriated in support of the pending defense cooperation agreements with Greece and Turkey. The request for fiscal year 1979, however, includes no funds for grant military assistance in support of these agreements. Depending on the timing of Congressional approval of the agreements, \$80 to \$120 million of additional funds for grant military assistance may be sought for fiscal year 1979.

Advances, Foreign Military Sales

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	8,625	6,916	11,100	10,282	12,300	12,300
Receipts	<u>-9,369</u>	<u>-8,800</u>	<u>-8,700</u>	<u>-9,891</u>	<u>-9,200</u>	<u>-9,200</u>
Net Budget Authority	-744	-1,884	2,400	391	3,100	3,100
Outlays	8,210	8,800	8,500	9,625	9,500	9,500
Receipts	<u>-9,369</u>	<u>-8,800</u>	<u>-8,700</u>	<u>-9,891</u>	<u>-9,200</u>	<u>-9,200</u>
Net Outlays	-1,159	--	-200	-266	300	300

Budget authority and outlays associated with the foreign military sales trust fund are net amounts; they equal trust fund obligations less trust fund receipts, and trust fund disbursements less trust fund receipts, respectively. Trust fund obligations, receipts, and outlays flow from sales acceptances, and are estimated as a function of the level of new acceptances. Because the actual level of new acceptances depends on events beyond the control of the U.S. government, new acceptances are difficult to estimate. Therefore, estimates of trust fund obligations, receipts, and outlays are surrounded by considerable uncertainty.

Implicit in the budget estimates for fiscal year 1979 are levels of new acceptances for fiscal years 1978 and 1979 of \$13.2 billion and \$13.6 billion. The levels implicit in the CBO current policy projection for fiscal year 1979 are \$10.5 billion and \$11.1 billion, respectively. Obligations are generally incurred in the trust fund prior to the receipt or disbursement of funds from the trust fund; hence, the greater levels of new acceptances implicit in the budget estimate cause the budget estimate of net budget authority to exceed the CBO current policy estimate by \$2.7 billion. The budget estimate of net outlays reflects the intent of the managers of the trust fund to draw down the balance of cash in the trust fund over the next few years to a level more consistent with quarterly cash requirements for sales cases. This decision is not reflected in the CBO current policy estimate.

The Export-Import Bank

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	-	-	-	829	377	660
Outlays	340	221	196	469	391	404

Bank activities during fiscal year 1978 will be supported by the balance of unobligated authority that accumulated during fiscal year 1977; no budget authority is estimated to be required for fiscal year 1978. In fiscal year 1979, however, direct credit authorizations are estimated to increase by \$0.9 billion, the change in the level of net guarantee and insurance authorizations is estimated to increase by \$1.1 billion, and the unobligated balance will have been depleted. As a consequence, budget authority of \$660 million is estimated to be required.

Budget authority and outlays depend on the levels of credit authorizations, guarantee and insurance authorizations, credit cancellations and repayments, and bank net income. Because the levels of authorizations and cancellations are strongly influenced by decisions and events beyond the control of the U.S. government, they are difficult to estimate.

The assumptions underlying the CBO estimate for fiscal year 1978 differ slightly from those used in the budget estimate--CBO assumes a lower cancellation rate than that used in the budget estimate. As a consequence, the CBO current policy estimate for fiscal year 1979 assumes a smaller balance of unobligated authority carried forward from fiscal year 1978 into fiscal year 1979 and, therefore, exceeds the Administration's current services estimate. The estimated increases in the levels of credit, guarantee, and insurance authorizations cause the Administration's estimate for fiscal year 1979 to exceed the current services estimate; however, because of the difference in the estimate of the unobligated balance available for fiscal year 1979, the Administration's estimate still falls short of the CBO current policy estimate.

Each of the estimates for fiscal year 1979 is contingent upon the enactment of legislation extending the operating authority of the Export-Import beyond September 30, 1978.

U.S. Participation in the Supplementary Financing Facility of the International Monetary Fund (IMF)

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	-	-	200	-	-	-
Outlays	-	-	-	-	-	-

The administration has requested a supplemental of \$200 million for fiscal year 1978 to support U.S. participation in the Supplementary Financing Facility of the IMF. This temporary facility would augment the resources of the IMF and permit it to assist member countries with severe balance of payments problems. U.S. participation in the facility would involve making available to the IMF the equivalent of up to 1,450 million Special Drawing Rights (about \$1.75 billion). The IMF would draw on these funds, if and when needed, to meet drawings by member countries from the facility. In exchange for funds provided to the facility, the U.S. would receive a reserve claim on the IMF, which could be redeemed upon demonstration of balance of payments need, or could be sold to other members of the IMF.

In the opinion of the Administration, U.S. participation would involve an exchange of assets--upon the transfer of funds from the U.S. Treasury to the IMF, the international monetary reserves of the U.S. would be increased by the amount of resources transferred--and, therefore, no appropriation is sought to finance participation in the facility. The \$200 million requested for fiscal year 1978 would serve as a reserve to cover possible dollar losses that might result from participation in the facility if the dollar were to appreciate in value. No outlays would result from the \$200 million unless the U.S. incurs a loss because of the appreciation of the dollar.

The Appropriations and Budget Committees have expressed concern that U.S. participation in the facility be brought within the budgetary and appropriations process. H.R. 9214 (as ordered reported by the House Committee on Banking, Currency and Housing), authorizes U.S. participation in the special facility but provides that "the authority of the Secretary (of the Treasury) to enter into agreements making resources available under this Act shall be limited to such extent or in such amounts as are provided in advance in appropriations Acts." Under consideration are the use of a limitation on the level of program activity, which would be included in an appropriation bill but would stop short of the actual appropriation of funds, and full appropriation of funds in support U.S. participation in the facility. If funds were appropriated, full participation in the facility could require the appropriation of about \$1.75 billion. Outlays would occur as funds were drawn by the IMF or repaid to the U.S. Treasury. No reasonable basis exists, however, to estimate the magnitude or timing of these flows.

Other Programs

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,535	1,509	1,619	1,622	1,562	1,722
Outlays	1,662	1,486	1,584	1,639	1,601	1,716

The request for fiscal year 1979 for other programs in the International Affairs function is slightly greater than the CBO current policy estimate for those programs. The budget, however, includes requests for supplemental appropriations for fiscal year 1978, in addition to supplementals for increased pay costs, of over \$100 million for programs in this category. The largest such request is one of \$64 million for Contributions to International Organizations and Programs.

Foreign information and exchange programs are reorganized with the creation of the International Communication Agency. The reorganization, which consolidates existing programs in the State Department's Bureau of Educational and Cultural Affairs and the United States Information Agency, has little effect on the levels of funding for such activities.

GENERAL SCIENCE, SPACE, AND TECHNOLOGY (FUNCTION 250)

This function includes the government's general science and basic research programs (administered primarily by the National Science Foundation and the Department of Energy) and the space programs of the National Aeronautics and Space Administration (NASA).

Function Totals

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	4,576	4,842	4,848	5,247	5,199	5,216
Outlays	4,677	4,707	4,703	5,057	5,039	5,077

The President's budget request for fiscal year 1979 represents a 8 percent increase in budget authority over the fiscal year 1978 appropriation. This level of funding is slightly less than the CBO current policy estimate for fiscal year 1979, and thus represents a slight reduction in the amount of real resources devoted to this area. There are also some changes in emphasis and several new projects. The major policy change indicated in the President's request involves the space shuttle program, for which NASA has elected to build only four space shuttle orbiters, instead of the five originally planned.

General Science and Basic Research

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,135	1,265	1,265	1,369	1,349	1,367
Outlays	1,077	1,157	1,190	1,328	1,264	1,275

An 8 percent increase is requested by the President for basic research activities, consisting primarily of the programs of the National Science Foundation (NSF). This increase of \$103 million over the 1978 appropriation is very close to the current policy level of funding, as estimated by both CBO and the Administration. Emphasis continues to be placed on projects related to the physical sciences, astronomical and earth sciences, and plant sciences.

Space Program--National Aeronautics and Space Administration

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	3,441	3,583	3,583	3,878	3,850	3,849
Outlays	3,600	3,550	3,513	3,729	3,775	3,802

The President proposes a 7 percent increase in the space program budget in fiscal year 1979--a level slightly below the CBO current policy estimate. The program, administered by NASA, encompasses three basic

activities--research and development, construction of facilities, and research and program management. The President's request includes a 9 percent increase (\$257 million) in research and development, with an emphasis on space science and applications. The budget for research and program management increases 8 percent from fiscal year 1978, while the proposed funding for construction of facilities is down 39 percent. This decrease is substantially offset by a proposed increase in NASA construction funds for aeronautics, which falls within function 400. Several actions by NASA, while not significantly affecting this budget request, may have important impacts on future year budgets. NASA plans to initiate several long-term projects, including the earth radiation budget satellite system and the solar polar mission. NASA has also elected to rely on four space shuttle orbiters rather than the five initially planned. While this will result in cost savings in future years, there is no major impact on the fiscal year 1979 budget, because the fifth orbiter was still in the preliminary development stages.

ENERGY (FUNCTION 270)

This new function represents the federal government's expenditures, primarily through the Department of Energy, in the area of energy research and development, production and distribution, emergency preparedness, conservation, and regulation.

Function Totals

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	4,978	8,034	8,533	8,101	6,854	9,545
Outlays	4,152	6,824	7,831	8,748	7,582	9,634

The proposed budget authority for 1979 includes a 19 percent increase in funding for energy programs over the amounts currently appropriated for fiscal year 1978. The President is proposing major increases for the strategic petroleum reserve and conservation activities. In addition, several shifts in emphasis are evident that reflect the President's national energy plan as submitted to the Congress in April 1977.

Nuclear Energy Supply

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	2,324	1,941	1,950	1,947	a/	1,403
Outlays	1,859	2,173	2,337	2,271	a/	1,890

a/ The President's current services estimate for energy supply is \$3,062 million in budget authority and \$4,258 million in outlays. The nuclear/non-nuclear split is not available at this time.

The President's fiscal year 1979 budget request for nuclear energy supply activities is \$538 million below the 1978 appropriation. This decrease reflects a redirection of the breeder reactor and fuel cycle research and development programs and an increase in expected uranium enrichment receipts. The Administration is proposing a reduced base technology effort for the liquid metal fast breeder reactor and is again recommending the cancellation of the demonstration plant at Clinch River, resulting in a \$150 million decrease from the 1978 funding level. An increase of \$51 million is requested for the nuclear research and applications program, consistent with the national energy plan objective to develop advanced nuclear systems that minimize the risks of international proliferation. Funding for the fuel cycle research and development program is proposed to decrease \$38 million, with an emphasis on the evaluation of fuel processing alternatives to facilitate development of a nuclear non-proliferation policy.

The 1979 budget request for uranium enrichment activities will allow continuation of the gas centrifuge enrichment plant projects. The President projects that net 1979 expenditures for uranium enrichment activities will be \$432 million below 1978 levels because of the proposed legislation mandating increased prices for uranium enrichment services (\$163 million) and a higher demand for those services (\$269 million). Current policy for pricing is presently computed on a cost recovery basis that includes research, plant construction, and operating expenses, but not taxes and insurance costs necessary for private industry.

Non-Nuclear Energy Supply and Receipts

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,279	1,446	1,369	1,543	a/	1,466
Outlays	1,407	1,452	1,847	2,053	a/	2,223

a/ The President's current services estimate for energy supply is \$3,062 million in budget authority and \$4,258 million in outlays. The nuclear/non-nuclear split is not available at this time.

This category includes all non-nuclear energy supply research, development, production, and demonstration of the Department of Energy, and energy supply expenses and receipts for the power administrations and the naval petroleum reserves. It also includes activities of the U.S. Geological Survey in the exploration and development of the Alaskan petroleum reserve, energy research programs of the Environmental Protection Agency, and the Rural Electrification Administration's loan program. The 1979 budget request is 1 percent above the CBO estimate for fiscal year 1978 and 5 percent below the CBO current policy estimate for 1979, primarily reflecting a projected increase in offsetting receipts. An estimated \$856 million in receipts for power marketing and naval petroleum reserves sales are included in the 1979 budget request, and a slightly smaller amount is included in the CBO current policy estimate. Excluding the impact of the receipts, the President's request represents a 5 percent increase in spending in this area over the current estimate for 1978. Funding increases are requested for coal liquefaction and advanced research (\$39 million), geothermal resource development (\$24 million), and biomass energy development (\$6 million).

Energy Conservation

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	242	693	842	750	484	1,510
Outlays	143	420	601	608	363	1,402

This category represents the Department of Energy's conservation activities and encompasses programs for technology development, efficiency standards, grants to states, and proposed legislation for automobile fuel-efficiency tax refunds. The President's basic fiscal year 1979 budget request is \$317 million above current 1978 appropriations for conservation programs, an increase of 46 percent. Almost half of this increase (\$138 million) is for the low-income weatherization grant program. The other major increase (\$71 million) is for energy audits and energy-efficient capital improvement grants for schools, hospitals, and local government buildings.

In addition, as proposed legislation under the President's energy plan, the budget includes a request for \$150 million in fiscal year 1978 and \$500 million in fiscal year 1979 for refunds of gas-guzzler tax revenues as an incentive for the purchase of fuel-efficient vehicles. This request would have no net effect on the budget, since the provision is designed to rebate all taxes collected; however, the outlays would be scored under function 270. (The Congressional Budget Office discusses this Administration proposal in a recent staff working paper, entitled President Carter's Energy Proposals: A Perspective June 1977. The gas-guzzler tax approved by the House of Representatives would result in a lower collection of revenues (an estimated \$100 million in fiscal year 1979) with no rebates and therefore no outlays. The Senate version of the energy bill has no provision for a tax on fuel-inefficient automobiles, and instead doubles the penalties for violation of automobile fuel economy standards.

Strategic Petroleum Reserve

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	445	3,182	3,595	3,087	2,485	4,255
Outlays	123	2,148	2,273	3,102	2,205	3,284

The President's 1979 budget request provides full funding for the second 250 million barrels of oil scheduled to be stored by the end of calendar year 1980, and includes \$100 million for site construction for the third 250 million barrels. This reflects the Administration's commitment to develop a 1 billion barrel reserve by 1985. The budget request also includes \$415 million in fiscal year 1978 and \$425 million in fiscal year 1979 for increased oil costs attributable to the proposed crude oil equalization tax. The 1979 CBO current policy estimate of budget authority is probably understated, because it does not adequately reflect the longer than anticipated lead time for oil acquisition.

Other Energy Activities

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	688	772	777	774	822	911
Outlays	621	631	773	714	756	835

These activities include energy policy, information, and regulation programs of the Department of Energy and the Nuclear Regulatory Commission, and miscellaneous offsetting receipts. The 1979 budget request of \$911 million is \$139 million above the 1978 CBO estimate, an increase of 18 percent. The major increase (\$158 million) is for the Department of Energy's administrative, regulatory, and information expenses. Efforts would be directed toward resolving the backlog of regulatory cases, auditing the major oil refiners, and collecting data on energy supply and consumption. Also, increased funding is requested for an expanded decontamination and decommissioning program. These increases are partially offset by a projected increase of \$69 million in offsetting receipts.

The requested increase of \$50 million for the Nuclear Regulatory Commission reflects the funding of safety-related research facilities needed by the commission to substantiate regulatory standards and procedures. Also, the inspection program would change to provide full-time inspectors for nuclear reactors in the late stages of construction or operation.

NATURAL RESOURCES AND ENVIRONMENT (FUNCTION 300)

The purpose of the programs within this function is the conservation and management of the nation's natural resources and the environment. The major activities include water resources management, conservation and land management, pollution control and abatement, and maintenance and development of recreational areas.

Function Totals

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	9,457	12,476	12,792	13,547	12,153	12,664
Outlays	10,000	11,613	11,924	13,236	11,987	12,221

The budget authority proposed by the President for this function is only 1.5 percent, or \$188 million, above the current appropriation for fiscal year 1978. This results in a decrease in real resources devoted to this function, since the Presidential request is almost \$900 million less than the CBO current policy estimate for fiscal year 1979.

Major budget authority increases include \$145 million in recreational resources, \$325 million for pollution control and abatement activities, and \$120 million for other natural resources. Program decreases include \$390 million for water resource programs and \$370 million for conservation and land management programs.

Corps of Engineers--Construction, General

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,430	1,524	1,494	1,648	1,394	1,274
Outlays	1,321	1,327	1,390	1,430	1,480	1,362

The request for 1979 budget authority for this account represents a \$220 million decrease from 1978 and a \$374 million decrease from the CBO current policy estimate for 1979. These cuts will result in delays in advanced engineering and design studies for eight projects, and will provide no additional funds for 15 projects on which design has already been started. In addition, 21 projects now under construction will be delayed because of the lower funding level proposed in fiscal year 1979. Most of these resulting delays will be less than a year.

For fiscal year 1978, the President's estimate of budget authority reflects a transfer of \$30 million to other Corps of Engineers' accounts for salary increases.

Other Water Resources

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	2,235	2,161	2,177	2,328	2,131	2,011
Outlays	1,923	2,170	2,237	2,358	2,139	2,034

The request for new budget authority for 1979 for other water resources projects totals \$317 million less than the CBO current policy estimate for 1979 and \$150 million less than the current appropriation for fiscal year 1978. Most of the decrease is for activities of the Corps of Engineers and the Bureau of Reclamation. The Corps will delay completion an average of 18 months for eight segments of the flood control program for the Mississippi River and its tributaries, because of cuts in 1979 and anticipated lower levels of funding in later years.

The Bureau of Reclamation is currently experiencing delays in the construction of two major projects--the Auburn Dam in California for a review of geologic conditions, and the Garrison diversion project in North Dakota, because of unresolved legal questions. If these problems are resolved, additional funds may be requested for the Bureau. For Bureau of Reclamation and Corps of Engineers construction projects, the President is proposing that all new projects be fully funded after they are authorized. Currently, projects are funded in phases.

Conservation of Agricultural Lands

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	641	534	534	567	512	388
Outlays	468	532	670	504	456	432

This category includes the conservation activities of the Agricultural Stabilization and Conservation Service (ASCS) and the Soil Conservation Service (SCS), which are designed to protect and maintain the long-term productive capacity of the nation's rural lands. The budget request for these programs is \$146 million (37 percent) below the 1978 appropriation and \$179 million (46 percent) below the CBO current policy estimate for 1979. This proposed decrease in budget authority is the result of a proposed reduction in cost sharing assistance to farmers, largely because of the termination of special drought programs. Most of the decrease occurs in the ASCS agricultural conservation program. The requested appropriation of \$100 million for this program is \$126 million below the 1978 level, and \$136 million below the CBO current policy estimate for 1979. In addition, this program will be consolidated with the Great Plains conservation program of the Soil Conservation Service in 1979.

Management of National Forest and Forestry Research

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,234	1,366	1,599	1,482	1,450	1,570
Outlays	1,109	1,208	1,479	1,387	1,385	1,407

This category is composed of all of the programs of the Forest Service, with the exception of the construction and operation of recreation facilities, permanent appropriations, and highland scenic highway accounts. In fiscal year 1978, \$204 million in supplemental funds are requested for firefighting. In fiscal year 1979 a comparable amount is included in the President's budget request for the forest protection and utilization program of the Forest Service. Adjusting for the firefighting funds, the budget request for this program in fiscal year 1979 is approximately \$60 million below the 1978 appropriation level and \$114 million below the CBO current policy estimate. This represents a 7 percent decrease in funding for this program and is the major component of the 2 percent overall decrease in budget authority requested for this category.

Management of Public Lands

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	340	334	371	357	367	386
Outlays	367	321	351	342	344	382

This category includes all the programs of the Bureau of Land Management (BLM), except for payments in lieu of taxes, mineral impact loan assistance, and permanent indefinite accounts. The budget request for these programs represents a 16 percent increase over the current appropriation for fiscal year 1978, and an 8 percent increase over the CBO 1979 current policy estimate. As in the case of the Forest Service, this increase is deceptive. The President is requesting a \$27 million supplemental appropriation in fiscal year 1978 to increase capability for emergency prevention and suppression of fires and for rehabilitation of burned lands; a similar sum is included in the 1979 budget request. When this difference is considered, the 1979 budget request is only 4 percent above the President's estimate for 1978 and close to the 1979 CBO current policy estimate.

Land and Water Conservation Fund

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	561	630	656	682	630	755
Outlays	344	499	472	563	520	554

The Bureau of Outdoor Recreation administers the land and water conservation fund, which provides the resources for acquisition of federal and state recreation areas. The grants-in-aid available to the states can also be used for land development purposes. The President is proposing a \$125 million increase in budget authority over the \$630 million currently appropriated for fiscal year 1978. Although this represents an increase of approximately 20 percent, the proposed level is \$150 million less than the authorization level contained in Public Law 95-42, which amended the Land and Water Conservation Fund Act of 1965. The higher authorization level of Public Law 95-42 was proposed to clear the backlog of federal projects authorized prior to the convening of the 95th Congress.

EPA Construction Grants

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,980	4,500	4,500	5,000	4,500	4,500
Outlays	3,529	4,380	4,135	5,288	4,660	4,660

The \$4.5 billion construction grants program of the Environmental Protection Agency (EPA) comprises over 80 percent of that agency's proposed budget authority for fiscal year 1979. The program provides 75 percent federal grants to state and local agencies for the construction of sewer treatment facilities. The amount proposed by the President is \$500 million less than the authorization level contained in the recently enacted 1977 amendments to the Federal Water Pollution Control Act.

The fiscal year 1978 budget authority for this program is contained in the pending supplemental bill (H.R. 9375). The lack of funding for many states has severely slowed obligation levels during the first part of fiscal year 1978, resulting in net obligations of only \$71 million in the first quarter. Consequently, the CBO outlay estimates for fiscal years 1978 and 1979 may be too high.

National Oceanic and Atmospheric Administration (NOAA)--Operations, Research, and Facilities

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	584	607	607	655	625	661
Outlays	510	527	593	626	635	654

The 1979 budget authority request for NOAA operations, research, and facilities is \$661 million--an increase of \$54 million over the fiscal year 1978 level and \$6 million over the CBO 1979 current policy estimate. NOAA plans increased activity in such areas as basic environmental services, studies concerning the effects of ocean dumping, and the climatology program.

Other Natural Resources and Environmental Programs

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	454	820	854	828	544	1,119
Outlays	429	649	597	738	368	736

This category contains programs of the Environmental Protection Agency, U.S. Fish and Wildlife Service (USFWS), National Park Service, National Oceanic Atmospheric Administration, Bureau of Indian Affairs, Bureau of Mines, and U.S. Geological Survey. It also includes all offsetting receipts in function 300.

For fiscal year 1979, the President is proposing to increase funding for these programs by \$264 million. Included in this increase is proposed legislation of \$180 million in budget authority for an oil pollution liability and compensation fund. This fund, administered by the Coast Guard, would be utilized for cleanup of oil spills. The proposed legislation would also establish liability for owners and operators of sources of oil discharges.

In addition, as a result of the Surface Mining Control and Reclamation Act of 1977, the Office of Surface Mining Reclamation and Enforcement was established in 1978. The budget request for this program in fiscal year 1979 is \$109 million--an increase of \$41 million over the 1978 appropriation, and \$36 million over the CBO current policy estimate for 1979. These funds are to be appropriated from receipts generated by fees levied on coal production and deposited in the general fund.

The President is also proposing a \$127 million increase to EPA's operating budget, emphasizing increases in air and toxic substances programs. Other major increases include \$65 million for the U.S. Fish and Wildlife Service and \$30.5 million for the Bureau of Mines.

AGRICULTURE (FUNCTION 350)

This function includes programs that provide farm income security, as well as agricultural research and services. With the exception of the proposed Israel-United States binational agricultural research and development fund, all programs are administered by the Department of Agriculture.

Function Totals

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	2,424	2,084	3,720	5,127	6,574	7,197
Outlays	5,526	8,073	9,066	7,028	5,511	5,433

The major program in this function is agricultural price supports and related activities, administered by the Commodity Credit Corporation (CCC). Price support outlays constituted less than 70 percent of total function 350 outlays in fiscal year 1977, but this proportion is expected to rise to about 80 percent in fiscal years 1978 and 1979.

Other accounts of major importance in this function are the Agricultural Credit Insurance Fund, the Federal Crop Insurance Fund, and the Agricultural Stabilization and Conservation Service.

CCC--Price Support and Related Programs

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	899	524	2,071	3,418	5,005	5,500
Outlays	3,809	6,458	7,299	5,322	4,258	4,276

Budget authority levels for the Commodity Credit Corporation are largely dictated by obligations and outlays each year. Budget authority is derived from two sources: annual appropriations to pay administrative expenses and restore realized losses, and contract authority. The CCC has the authority to borrow up to \$14.5 billion from the Treasury. As new borrowings are made, they are charged as contract (and budget) authority.

For fiscal year 1978, the CBO current estimate includes only the \$524 million already appropriated. The CCC plans to use \$17 million in new Treasury borrowings for additional staff to administer the price support programs.

The corporation also expects to borrow \$1.5 billion from the Treasury because of sharply increased program levels, resulting in total budget authority of \$2.1 billion. For fiscal year 1979, the corporation is requesting a \$991 million appropriation. In addition, the CCC projects that \$4 billion of new Treasury borrowings will be necessary to meet program obligations. This level will, however, breach the current \$14.5 billion limitation on borrowings. Therefore, legislation will be proposed to increase the borrowing authority of the corporation.

Outlays for price support and related programs are expected to increase in fiscal year 1978 compared to fiscal year 1977. Both poor market conditions and the higher support rates mandated by the Food and Agriculture Act of 1977 (Public Law 95-113) are contributory factors. The

Administration recently announced changes in the short-term export credit and feed grain programs; these changes have been included in its estimate of 1978 outlays. The CBO fiscal year 1978 estimate of \$6.5 billion has not yet been adjusted to include outlays for an additional \$200 million in short-term export credits and \$550 million in grain sorghum and barley deficiency payments. With these changes, the CBO estimate of outlays in fiscal 1978 is very close to the President's estimate of \$7.3 billion. For fiscal year 1979, CBO has projected \$5.3 billion in outlays, as opposed to the President's \$4.3 billion. Two assumptions account for most of the difference. The President has assumed both higher market prices and a lower rate of set-aside program participation than has CBO. Both the Administration and CBO have assumed normal weather.

Agricultural Credit Insurance Fund

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	141	165	165	211	144	144
Outlays	393	142	183	215	-188	-388

Budget authority for the Agricultural Credit Insurance Fund of the Farmers Home Administration is appropriated to restore realized losses in previous years. In fiscal year 1979, the President is requesting budget authority of \$144 million--\$21 million less than in fiscal year 1978.

Outlays for this account are extremely volatile, and bear little relationship to the level of program activity. Outlays are the result of administrative and loan subsidy costs, as well as financial transactions with the Federal Financing Bank (FFB). Transactions with the FFB are fully at the discretion of the Administration. A decision to to sell accumulated loans to the FFB lowers outlays, while a decision to hold loans raises outlays.

In fiscal year 1977, the combination of a large volume of disaster loans, together with a decision to hold rather than to sell loans during the last quarter, resulted in outlays of nearly \$400 million. In fiscal year 1978, both the President and CBO estimate outlays somewhat below administrative and subsidy costs, reflecting some net loan sales. In fiscal year 1979, the CBO estimate reflects administrative and subsidy costs only. It is neutral with respect to financial transactions. The President's 1979 current services estimate assumes heavy selling of paper held over from the previous two fiscal years. The Administration's fiscal year 1979 outlay estimate is \$200 below its current services figure because of the expiration of the emergency livestock loan program on September 30, 1978.

Other Farm Income Stabilization and Offsetting Receipts

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	300	217	292	238	215	271
Outlays	272	305	370	250	224	286

Most of the changes within the remaining farm income stabilization accounts are attributable to the Federal Crop Insurance Corporation (FCIC) and the Agricultural Stabilization and Conservation Service (ASCS). The FCIC attempts to administer an actuarially sound program of crop insurance. The corporation has a capital stock of \$150 million, of which \$130 million has been issued. The Administration plans to ask for the remaining \$20 million in fiscal year 1978. In addition, legislation is proposed to raise the authorized capital stock level to \$200 million. Neither the President nor CBO anticipate that any of the added \$50 million will be required to meet obligations through fiscal year 1979, assuming normal weather conditions.

Outlays for the crop insurance program have been unusually high in fiscal years 1977 and 1978 because of drought in the Midwest and Southeast. The lower outlay estimates for fiscal year 1979 reflect the assumption of normal weather during crop year 1978.

The ASCS administers agricultural price support and related programs, the agricultural conservation program, and several smaller programs. Because of heavy activity in the price support programs, the Administration is requesting a \$57 million supplemental appropriation to fund additional personnel in fiscal year 1978. The President's budget assumes that the heavy workload will continue into fiscal year 1979, and that commensurate funding will be required.

Agricultural Research and Services

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,084	1,178	1,192	1,260	1,210	1,282
Outlays	1,052	1,168	1,214	1,241	1,217	1,259

The budget authority requested for agricultural research and services is \$94 million above the President's fiscal year 1978 estimate, an increase of about 8 percent, and slightly higher than the CBO current policy estimate for fiscal year 1979. The President's fiscal year 1979 request is about \$70 million higher than his current services estimate, largely because of the proposed \$40 million Israel-United States binational agricultural research and development fund.

COMMERCE AND HOUSING CREDIT (FUNCTION 370)

Most of the programs in this function are designed to ensure an adequate supply of credit to meet the nation's housing and credit needs. These programs include the mortgage insurance and purchase activities of the Department of Housing and Urban Development (HUD) and the Department of Agriculture, the thrift deposit insurance activities of the federal government, and many of the direct loan and loan guarantee programs of the Small Business Administration. In addition, the function includes funding for the Postal Service for many of the activities of the Department of Commerce, and for a number of other independent agencies.

Function Totals

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	5,481	5,111	5,342	5,461	6,491	6,597
Outlays	-31	3,323	3,488	3,736	3,106	2,969

The President has requested \$6.6 billion in budget authority for fiscal year 1979, an increase of more than 23 percent over his estimate for 1978. Most of this increase is attributable to a proposal to fund \$1.5 billion of the loan purchase activity of the Government National Mortgage Association (GNMA) from new budget authority rather than from recaptured authority as has generally been the case in the past. (This also accounts for much of the difference between the President's 1979 request and the CBO current policy estimate.) Increases are also proposed for the elderly and handicapped housing program of the Department of Housing and Urban Development, the Postal Service, and the Bureau of the Census. These increases are partially offset, however, by substantial reductions in the budget authority required to support the activities of the Federal Housing Administration fund and the rural housing insurance fund (RHIF).

The President estimates fiscal year 1979 outlays of \$3.0 billion for the function, about \$0.5 billion less than 1978. While most program activity levels are projected to increase in fiscal year 1979, the associated higher outlays are more than offset by projected lower default levels in the mortgage insurance funds, by increased income to the thrift deposit insurance funds, and by an increase in the sale of certificates of beneficial ownership by the RHIF. The unusually low outlays in 1977 are attributable to the economic recovery. During that year, GNMA had net negative outlays of \$1.1 billion and the Federal Home Loan Bank Board recovered \$1.5 billion of loans advanced to member institutions in previous years. In addition, \$143 million in surplus revenue (not included in the tables that follow) was returned to the Treasury by the Federal Financing Bank.

Rural Housing

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	522	466	746	635	337	448
Outlays	99	435	455	607	-103	-92

Financial assistance for rural housing is provided by the Farmers Home Administration through direct grants, insured subsidized loans, and rental assistance payments. The President is proposing a major increase in direct grants, from \$28 million in fiscal year 1978 to \$54 million in 1979. Insured loans and rental assistance payments are proposed to increase consistent with current policy. The mix of loans is proposed to change, with low-income housing assistance increasing 17 percent while moderate-income housing assistance decreases by 24 percent. The President's estimates of budget authority and outlays for fiscal year 1979 are substantially below 1978 levels because he projects large sales of loans in 1979 by the rural housing insurance fund. The President has revised his estimate of borrowing authority to be used by the fund in fiscal year 1978, increasing it by about \$280 million.

Legislation will be submitted for a new home ownership program to assist very low-income families in cases where home ownership is more cost effective than existing programs. The estimated 1979 cost is \$6 million.

Federal Housing Administration Fund

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	661	705	555	675	555	451
Outlays	492	650	407	622	407	221

Outlays from the FHA fund are the result of losses sustained on defaulted insured mortgages. The budget authority to support these outlays can come from current appropriations or borrowing authority. For fiscal year 1979, the President is requesting an appropriation of \$352 million and proposes using \$99 million in borrowing authority, resulting in estimated budget authority of \$104 million below the Administration's estimates for 1978, and outlays \$186 million below. The Administration estimates much lower losses in fiscal years 1978 and 1979 than have occurred in the past. These lower fund outlays result largely from two proposals designed to reduce defaults and to enhance the salability of HUD-acquired multifamily mortgages and properties. The President is requesting a one-time supplemental appropriation to provide \$24.3 million in fiscal year 1978 for additional rent supplement assistance; for fiscal year 1979, the President is proposing a new operating subsidies program to assist HUD-insured and HUD-owned multifamily projects. HUD estimates that these proposals, if enacted, would reduce losses of the FHA fund by \$300 million. In addition, HUD expects the availability of financing from GNMA's tandem programs to further stabilize the lower-income assisted housing market--the main source of the FHA fund's past losses.

Government National Mortgage Association (GNMA)

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	10	8	7	8	1,507	1,507
Outlays	-1,082	-264	40	-118	332	333

For fiscal year 1979, the President is requesting the release of \$2.0 billion in loan purchase authority for the GNMA special assistance functions fund. This is about the same level of activity currently estimated for fiscal year 1978. The fiscal year 1978 authority was provided from recaptured authority and required no new budget authority. In 1979, however, the Administration proposes using only \$0.5 billion of recaptured authority, resulting in a net request of \$1.5 billion in additional budget authority. (The CBO current policy estimates assumed the funding of 1979's special assistance activity entirely from recaptured authority.) The President projects outlays in fiscal year 1979 to increase to \$333 million, \$293 million over fiscal year 1978, and a level considerably above the CBO current policy estimate. These differences result from a projected decrease in asset sales in 1979. The thrust of GNMA's 1978 activity and its proposed 1979 activity is towards assisting moderate and low-income multifamily housing. GNMA estimates that \$0.5 billion of loan purchase authority will be used in fiscal year 1978 to assist moderate-income unsubsidized housing in distressed urban areas, and \$1.5 billion will be used to further assist HUD-insured section 8 projects. These levels of activity are proposed to continue in fiscal year 1979.

Housing for the Elderly or Handicapped

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	850	750	750	814	750	800
Outlays	4	420	335	767	713	713

This program provides direct loans at Treasury borrowing rates for housing designed for the elderly or handicapped. (Housing developed under this program generally receives section 8 assistance as well.) The President's request for \$800 million in budget authority for fiscal year 1979 is \$50 million above the 1978 appropriation, and is expected to finance 25,000 units, slightly more than the 23,600 units projected for fiscal year 1978. HUD projects no increases in the per-unit costs while the CBO estimates contain allowances for inflation.

Thrift Insurance

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	---	---	-10	---	---	---
Outlays	-2,785	-856	-769	-1,387	-1,450	-1,448

This category includes the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration. The negative outlays result primarily from the thrift deposit insurance activities of these agencies and the budget estimates depend greatly on economic assumptions. The President's estimates for fiscal year 1979 assume a strong economy and no unusual outlays because of failing financial institutions. The President is also proposing a rescission of \$10 million of budget authority, previously provided the Federal Home Loan Bank Board and associated with the construction of a new headquarters building.

Postal Service

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	2,266	1,696	1,787	1,736	1,830	1,830
Outlays	2,267	1,696	1,787	1,736	1,830	1,830

The U.S. Postal Service budget request for 1979 represents a continuation of the basic financing arrangements established by the 1970 Postal Reorganization Act. ^{4/} A supplemental increase of over \$90 million is sought for fiscal year 1978 to cover increased amounts of revenue foregone because of rate changes proposed for implementation June 1, 1978. The request for fiscal year 1979 includes \$844 million for revenue foregone, an increase of \$134 million over the amount currently appropriated for 1978, and over \$40 million above the total requested for 1978.

Other Advancement and Regulation of Commerce

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,314	1,489	1,507	1,593	1,511	1,561
Outlays	1,114	1,240	1,233	1,509	1,377	1,412

The President has requested an appropriation of \$54 million more than the fiscal year 1978 program level, including a proposed \$18 million supplemental. This represents an increase of 3.6 percent, and is slightly less

^{4/} For further details, see Congressional Budget Office, Financing Postal Operations: Alternative Approaches and their Budgetary Implications, Background Paper No. 5, March 25, 1976.

than the CBO current policy estimate for fiscal year 1979. The most substantial increases are \$114.5 million to prepare for the 1980 decennial census of population and housing, and \$30 million to implement the 1978 survey of registration and voting. Smaller increases of \$13 million, to develop federal standards for computer utilization, and \$2 million, to establish the new National Telecommunications and Information Administration, are also included. The Office of Minority and Business Enterprise (OMBE) will receive a budget increase of \$11 million for program and business development. While over \$3 billion of new commitments for guaranteed loans has been included in the budget request for the Small Business Administration (SBA), the proposed budget authority for the programs of the SBA (excluding disaster loans) is \$183 million less than the 1978 funding level.

TRANSPORTATION (FUNCTION 400)

Function 400 includes most of the programs of the Department of Transportation (DOT), as well as the activities of a number of independent agencies related to transportation.

Function Totals

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	10,363	15,003	14,996	15,510	15,549	18,573
Outlays	14,636	15,931	16,158	17,061	17,116	17,399

Despite the increase in budget authority from fiscal year 1978 to 1979, there has been relatively little increase proposed in the funding levels for transportation activities. The budget authority increase reflects the President's proposal to terminate the contract authority of the Urban Mass Transportation Administration (UMTA), and to convert UMTA funding to an annual appropriation. The overall program levels for transportation activities are projected to grow by less than 1 percent relative to the 1978 level. The largest program increases include \$119 million for activities of the Federal Aviation Administration, \$117 million for Coast Guard activities, and \$227 million for the Federal Railroad Administration, with most of the increased rail funding for the railroad rehabilitation and improvement program.

Federal Highway Administration

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	3,756	7,164	7,178	7,360	7,317	7,855
Outlays	6,131	6,779	6,891	7,246	7,551	7,536

This aggregation comprises all the federal highway programs administered by the Federal Highway Administration (FHWA). Total FHWA obligations in fiscal year 1979 are projected to be \$8.1 billion, compared to the 1978 level of \$8.2 billion (assuming enactment of the President's legislative programs). Obligations of \$7.8 billion for the federal-aid highway program are being projected in the Administration's legislative proposal, which would restructure presently authorized, discrete highway programs into fewer and broader categories. The major increases include \$250 million for the interstate system and \$270 million for the bridge reconstruction and replacement program. (The proposed spending level for the interstate system, while higher than the fiscal year 1978 amount, is \$125 million below the previously authorized level for 1979.) The four major categories of the modified program would be the interstate system, the primary road program, the small urban and rural program, and the urban program. Within these programs, transfers would be allowed at the discretion of the state and local authorities. Included in the Administration proposal is an emphasis on consolidating federal highway and public transportation planning assistance programs and the proposal to adopt uniform federal matching shares for highway and public transportation. A 90 percent federal share is proposed for all other state projects and highway and public transportation projects that are substituted for interstate system segments, and an 80 percent share is recommended for all other highway projects. (The federal share is already 80 percent for public transportation projects.) The increased federal share (from 70 to 80 percent) for all other highway projects is not reflected in any increase in the proposed program level, despite the fact that the change in share will result in fewer projects being funded with the same amount of federal dollars.

Rail Transportation

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,104	1,854	1,880	1,836	1,648	1,736
Outlays	1,676	1,728	1,795	1,800	1,854	1,825

The category encompasses the programs of the United States Railway Association (USRA) and the Federal Railroad Administration (FRA), including the Northeast Corridor improvement program, grants to Amtrak, and the rail rehabilitation and improvement program. The President's request for fiscal year 1979 is \$118 million less than the 1978 funding level, primarily because of a decrease of \$289 million in funds for the purchase of Conrail securities. Fiscal year 1979 budget authority for this program is \$136 million appropriated in advance; this is the final component of the \$2.026 billion provided through 1979 by Public Law 94-252, a supplemental appropriations bill approved on March 30, 1976. This decrease is partially offset by an increase of \$55 million for the Northeast Corridor improvement program. (The Administration estimate is based on an assumption that all funds provided for in the Northeast Corridor in fiscal years 1977 and 1978 will be obligated before fiscal year 1979, despite the relatively slow obligation rate to date.) The \$279 million request for the railroad rehabilitation and improvement program in 1979 represents a \$79 million increase over the 1978 funding level, despite the slow rate of obligations this program has experienced. The 1979 request, when added to existing funds, is sufficient to cover all the applications presently received by the Administration for the purchase of redeemable preference shares from railroads. The Administration is also requesting \$660 million for grants to Amtrak, an increase of \$13.5 million over the fiscal year 1978 appropriation, excluding the pending supplemental. These funds are to be used primarily for operating grants. (These are indications that the Administration may seek additional funds for Amtrak at a later time.)

Urban Mass Transportation

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	583	551	551	519	458	2,884
Outlays	2,000	2,172	2,179	2,254	1,991	2,311

This grouping includes funds for the Urban Mass Transportation Administration (UMTA) and the Washington Metropolitan Area Transit Authority (WMATA). The 1979 request reflects the changes to the federal mass transit assistance program to be proposed in the Administration's new highway/mass transit authorization bill. It will be proposed that the existing \$6.4 billion in contract authority be terminated on September 30, 1978, and that funding thereafter be provided through annual appropriations. Of the \$2.9 billion budget authority requested, approximately \$2.4 billion is attributable to the proposed new funding procedure. The new budget authority request includes approximately \$400 million for interstate transfer funds projected for transit use. This request does not include any funds for the Washington Metro system, which may be requested at a later date and could total \$200 to \$300 million.

Federal Aviation Administration

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	2,564	2,680	2,689	2,877	2,884	3,094
Outlays	2,369	2,556	2,656	2,835	2,865	2,877

This category includes Federal Aviation Administration (FAA) operations, facilities, engineering and development, and grants-in-aid for airports. The President's request for fiscal year 1979 is \$414 million above the current appropriation for 1978, an increase of 15 percent. It also exceeds both current policy and current services estimates by over 7 percent. The largest increase is \$206 million for FAA operations, an increase of 11 percent. Another large increase is \$162 million in the facilities and equipment account (from the airport and airway trust fund). This increase reflects a fully-funded flight service station automation program (\$146 million of the \$162 million) and a fully-funded radio range system replacement program. A third major increase is \$35 million for the grants-in-aid for airports program, reflecting contract authority already available.

The President's budget also contains a projected decrease in receipts to the airport and airway trust fund totalling approximately \$340 million. This reduction reflects the proposed legislation to reduce the airline passenger ticket tax and waybill tax by 2 percentage points, so that air carriers may use those fare revenues in a noise abatement program. No additional outlays from the fund are projected for this purpose.

Aeronautical Research and Technology

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	378	444	432	480	544	522
Outlays	344	413	397	441	476	466

This category includes the research and program management, construction of facilities, and research and development accounts of the National Aeronautics and Space Administration (NASA). The President's

budget request represents a 21 percent increase over the fiscal year 1978 appropriation, and is 9 percent over the CBO current policy estimate for 1979. The largest increase (\$38 million) is for construction activities related to NASA's aeronautical activities.

Water Transportation

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,683	1,905	1,874	2,005	1,958	2,042
Outlays	1,749	1,894	1,866	2,079	1,928	1,946

Included in this subfunction are programs of the Department of Commerce (the Maritime Administration), the Department of Transportation (Coast Guard), and the Federal Maritime Commission. The President's request for fiscal year 1979 is slightly above the CBO current policy estimate and is \$137 million above the 1978 appropriation, an increase of about 7 percent. Increases in the Coast Guard accounts are for full funding of three new bridge replacement and alteration starts, replacement of two medium-range-endurance cutters, and procurement of twelve additional medium-range surveillance aircraft at full funding. The Maritime Administration request reflects an increase in ship construction subsidy of \$22 million over the current appropriation of \$135 million to finance construction of six new ships, including two liquefied natural gas container ships. The President projects total construction subsidy obligations of \$279 million, including \$122 million from prior budget authority. This compares to an obligation level of \$242 million estimated for fiscal year 1978. Total 1979 obligations for operating-differential subsidies are estimated to be \$306 million, compared to \$309 million in 1978.

The projected level of activity of the federal ship financing fund is expected to bring the amount of outstanding guarantees, insurance, and commitments to a total of \$7.6 billion by the end of fiscal year 1978. Since this will place the program at or close to the existing ceiling, the Administration will propose legislation to raise the ceiling.

Other Transportation

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	295	405	392	433	740	440
Outlays	367	389	374	406	451	438

This category includes the programs of the National Highway Traffic Safety Administration, the Office of the Secretary of Transportation, the Research and Special Programs Directorate of DOT, the Interstate Commerce Commission, and the Civil Aeronautics Board. The Administration request for fiscal year 1979 is \$35 million above the 1978 level, an increase of 9 percent. The President's proposals include an increase of \$15 million for the state and community safety grant program, directed toward the hiring of additional police personnel to enforce the 55 mile-per-hour speed limit. In addition, a \$2.8 million increase is included for grants-in-aid to state agencies for the states' natural gas pipeline safety programs.

COMMUNITY AND REGIONAL DEVELOPMENT (FUNCTION 450)

This function includes programs for community and regional development and disaster relief administered by the Department of Housing and Urban Development (HUD), the Department of Commerce, the Department of Agriculture, and other agencies. The community development block grant program and the local public works program of the Economic Development Administration (EDA) account for 50 percent of estimated outlays in this function for fiscal year 1979. Further budget requests are expected in the spring as part of the President's urban initiative.

Function Totals

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	12,882	8,361	8,941	9,392	7,404	7,908
Outlays	6,375	10,363	9,917	10,068	8,694	8,861

The President's fiscal year 1979 request for the community and regional development function is \$7.9 billion in budget authority, which is \$1.5 billion below the CBO fiscal year 1979 current policy estimate. A major difference is that the latter assumes that SBA will continue to make disaster loans to farmers at fiscal year 1978 levels, while the President proposes that SBA end its disaster loan program for farmers; CBO current policy assumes an fiscal year 1979 appropriation of \$1.5 billion, while the President requests \$190 million. The President's fiscal year 1979 request contains increases for the HUD rehabilitation loan program (\$40 million increase in activity level), and for the basic economic development program of EDA (\$244 million). The President is also requesting 1978 supplementals of \$117 million for EDA and of \$150 million for disaster relief. The local public works program (LPW) of EDA received a \$6.0 billion appropriation as a one-time stimulus measure in fiscal year 1977, which accounts for the substantial decrease in budget authority in 1978.

Community Development Program

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	3,248	4,000	4,000	4,262	4,000	4,150
Outlays	2,089	2,535	2,584	3,244	2,793	2,803

The President is requesting the appropriation of the full authorization amount of \$3,750 million for the basic community development block grant program and \$400 million for the urban development action grant program (UDAG). This represents an increase of \$150 million from the fiscal year 1978 level for the basic program, and the same level as in fiscal year 1978 for UDAG. The CBO fiscal year 1979 outlay estimates, which are over \$300 million higher than the President's, are partially based on the assumption that the increase in the spending rate from fiscal year 1977 to fiscal year 1978 will continue into fiscal year 1979. Both of these programs have been considered by the Administration for increases as part of the forthcoming urban initiative.

Section 312 Rehabilitation Loans

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	50	0	0	19	45	95
Outlays	41	43	43	38	54	85

The President is requesting an appropriation of \$95 million for section 312 loans for the rehabilitation of residential and commercial properties.

This represents an increase in obligation level of \$40 million over the fiscal year 1978 level, from \$90 million to \$130 million. No appropriations were necessary in 1978, since available authority and receipts were adequate to support the projected obligation level. In order to achieve desired program levels in 1979, however, the President has requested budget authority of \$95 million to supplement \$35 million in receipts. The number of loan reservations is estimated to increase from 6,800 in fiscal year 1978 to 10,000 in fiscal year 1979.

Other Community Development

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	671	636	699	674	655	707
Outlays	1,396	1,197	1,415	901	1,114	1,103

The President's budget contains proposed new legislation for an urban extension service program for fiscal year 1979, with a funding request for \$10 million. The purpose of the program is to facilitate communications among local governments in dealing with urban problems, and to improve local problem solving capability. The President's budget also contains an increased request for HUD community development, salaries and expenses. The President requests budget authority of \$170 million for salaries and expenses (in this function), compared to an OMB current services estimate of \$156 million, and a CBO current policy estimate of \$158 million. He is requesting a \$20 million appropriation for the urban homesteading program, a level \$5 million over OMB current services; the status of the program is being changed in fiscal year 1979 from a demonstration project to an ongoing program.

Local Public Works

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	6,000	0	4	0	0	11
Outlays	585	2,800	2,304	1,920	2,001	2,011

Except for a \$4 million fiscal year 1978 supplemental request, and an \$11 million fiscal year 1979 request, both for administration of the program, there are no additional funds requested for the local public works program. This program was enacted in two parts in fiscal year 1977: \$2 billion as of October 1, 1976, and an additional \$4 billion enacted May 13, 1977 as part of the economic stimulus program. To date, funds from the first appropriation have been spent at approximately the rate expected, while spending from the \$4 billion is starting very slowly. This slow spending to date is not yet incorporated in the CBO outlay estimate for fiscal years 1978 and 1979. As a result, the CBO fiscal year 1978 outlay estimate is currently \$500 million above the President's 1978 outlay estimate.

Economic Development Assistance Programs

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	390	383	500	416	382	627
Outlays	297	339	341	382	337	399

The President's budget for EDA's basic economic development assistance program contains a fiscal year 1978 supplemental request for \$117 million, and a requested increase from the proposed fiscal year 1978 program level of an additional \$127 million for fiscal year 1979. The supplemental request includes \$43 million for the basic program, and \$74 million for expansion of the trade adjustment program. Urban areas receive most of the proposed funding increase, as EDA appears to be aiming towards a policy of equal aid to urban and rural areas in this program. The President's budget also presents plans to use \$100 million from EDA's economic development revolving fund as a set-aside to cover defaults of guaranteed loans to firms in the steel industry. This will allow steel companies access to credit and enable them to continue to operate in areas of high unemployment. The \$100 million would leverage \$500 million in loans. The President's budget assumes no default on these loans and therefore estimates no outlays.

Other Regional Development

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,839	1,566	1,814	1,992	1,694	1,795
Outlays	1,333	1,508	1,544	1,454	1,363	1,453

For fiscal year 1978, the CBO estimate for the rural development insurance fund (RDIF) of the Farmers Home Administration (FmHA) differs from the President's estimate by \$206 million in budget authority. The Administration estimates a requirement of \$214 million of permanent, indefinite authority to spend public debt receipts. The budget authority for the permanent part of this account is to a large part dependent upon the projected asset transactions for this program and is determined administratively. The CBO estimate of \$8 million in borrowing authority for RDIF was based on an earlier Administration estimates for this program.

The President's fiscal year 1979 request for the Appalachian Development Programs is \$20 million greater than the 1978 program level in this function. This increase is for the Appalachian development highway systems program and for area development projects.

No funding is requested in fiscal year 1979 for the coastal energy impact program because available authority is adequate to fund estimated activity level. CBO current policy assumes a \$115 million annual obligation level in fiscal year 1978 and beyond, however, demand for loans under present eligibility requirements has been low, and is not expected to increase greatly unless requirements change.

The Bureau of Indian Affairs (BIA) provides services such as aid to tribal government and social services, as well as management of tribal lands and administration of programs with funds under this function. The President has requested \$858 million for fiscal year 1979. This request is an 8 percent increase over fiscal year 1978, and is 2 percent above the CBO current policy estimate for 1979. No major initiatives or new programs have been identified. The BIA budget at the aggregate level (including accounts other than the 452) increased an average of 9 percent from fiscal year 1978 to fiscal year 1979.

SBA Disaster Loan Fund

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	291	1,515	1,515	1,528	340	190
Outlays	184	1,515	1,195	1,524	632	550

The President's fiscal year 1979 request for the SBA disaster loan program of \$190 million in budget authority represents a decrease of \$1.3 billion from the 1978 level. The fiscal year 1978 program consisted of approximately 80 percent physical disaster loans to farmers. The President

will propose legislation to limit the authority to make disaster loans to farms to the Farmers Home Administration (FmHA) of the Department of Agriculture. FmHA presently makes such loans and has more stringent eligibility requirements than SBA. The President's fiscal year 1979 request assumes that SBA will no longer make such disaster loans to farmers. The CBO fiscal year 1979 current policy estimate assumes the continuance of the fiscal year 1978 loan obligation level. Differences in fiscal year 1978 outlay estimates are because of differences in estimated demand for SBA physical disaster loans to farmers. CBO estimates that a large number of loans will be approved early in the fiscal year and thus allow for disbursement before the end of the year.

Funds Appropriated to the President for Disaster Relief

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	300	150	300	384	150	200
Outlays	294	236	375	357	225	284

The President's fiscal year 1979 budget includes a \$150 million supplemental request for disaster relief in 1978. To a large extent, these funds will provide disaster relief for disasters which occurred in fiscal year 1977. In some cases, the funds will reimburse federal agencies that have already incurred the costs of disaster relief. The CBO fiscal year 1979 current policy number of \$384 million is based on a historical average of obligations in the disaster relief program. The President's estimate of \$200 million is \$184 million below what would be required if disaster relief is necessary at the historical average for this program.

Other Disaster Relief and Insurance

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	93	110	109	117	138	133
Outlays	156	189	116	248	175	173

The largest program in this group is the flood insurance program of HUD's Federal Insurance Administration. Differences in fiscal year 1979 outlay estimates apparently stem from different assumptions about payments on insurance claims.

EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES (FUNCTION 500)

This function provides federal funds for all levels of education, and for training, employment, and labor services, as well as other social services. Approximately one quarter of the funds in this function support education programs and another quarter support social services programs that are administered primarily by the Department of Health, Education and Welfare. The remaining 50 percent cover training and employment accounts of the Department of Labor.

Function Totals

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	30,377	22,137	22,806	27,306	29,090	33,604
Outlays	20,985	26,899	27,434	27,840	29,377	30,421

Several major proposals in this function account for the increase of \$11 billion in budget authority and \$3.5 billion in outlays. Of the increase in budget authority, approximately 20 percent occurs because of real growth, another 20 percent responds to inflation, with the remainder for proposals for forward funding included in the President's request. Funds are requested to improve basic educational skills of the disadvantaged, to expand access to higher education for lower income students, and to help reduce the immediate financial burden of higher education for middle-income families. In addition, funds are requested to expand employment and training programs for youth and to continue 725,000 public service jobs through fiscal year 1979. Furthermore, the President proposes to redirect employment and training assistance toward individuals and areas of greatest need.

Elementary, Secondary, and Vocational Education (Current Law)

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	6,265	6,680	6,686	7,250	6,686	7,368
Outlays	5,078	5,995	5,673	6,574	6,436	6,513

In fiscal year 1979, the Administration is requesting an increase in budget authority of \$700 million over the fiscal year 1978 program levels for elementary, secondary, and vocational education. These additional funds are for new initiatives that would expand educational opportunities to disadvantaged and handicapped students.

While the President's current services budget remains essentially constant over the fiscal year 1978 level, the CBO current policy estimate shows that an increase of \$570 million is needed if the current group of programs are to keep pace with inflation. Because selective increases over current services have been requested by the President, some programs are scheduled to receive real funding increases--such as ESEA Title I, bilingual education, and Indian education--while others would experience real decreases in funding--including vocational education, support and innovative grants, and school libraries.

Since these education programs are forward funded, outlays primarily reflect funding levels from prior years. The fiscal year 1979 CBO current policy estimate is comparable to the OMB estimate, since both incorporate a major downward reestimate in 1978 spending. This change has been reflected in the President's 1978 figures, but not in the CBO 1978 figures. Reestimates to be done by CBO in February will incorporate the adjustment.

Elementary, Secondary, and Vocational Education (Proposed Legislation)

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	--	--	--	--	--	1,076
Outlays	--	--	--	--	--	-30

In addition to the \$700 million in additional funds for elementary and secondary programs under current law, the President has proposed several pieces of new legislation that would add \$1.1 billion to the 1979 budget. A \$400 million increase is proposed for programs under Title I of the Elementary and Secondary Education Act. These funds would be used to improve the basic educational skills of disadvantaged children through a special grant program for districts with high concentrations of children from low-income families. The outlay impact in fiscal year 1979 is expected to be only \$28 million, because of low first year spendout experience in the program.

The Administration has also proposed changes in the impact aid program that would have a net effect of increasing budget authority by \$676 million in fiscal year 1979. One proposal would gradually reform the program beginning in that year. While no details of these reforms have been specified, a savings in 1979 of \$76 million in budget authority and \$58 million in outlays is anticipated by the Administration. In addition, \$752 million in forward funding for 1980 is requested in 1979.

Higher Education (Current Law)

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	3,765	4,078	4,301	4,589	4,544	4,588
Outlays	3,104	3,511	3,789	3,952	4,286	4,289

The fiscal year 1978 President's higher education estimate includes a supplemental request for the Guaranteed Student Loan program of \$224 million. These funds would be used primarily to finance interest payments and special allowances on guaranteed loans. The major impact on outlays would occur in fiscal year 1979.

The fiscal year 1979 higher education budget request is \$287 million higher than the fiscal year 1978 estimate. The major increase, again, is the Guaranteed Student Loan program, which accounts for \$227 million of this amount. The basic grants program only provides for increases of \$17 million in budget authority. Obligations, however, are projected to increase by over \$150 million. This increase is the net result of three factors: rising family incomes, which decrease the number of recipients in the existing programs; raising the maximum grant to \$1,800, and increasing the deduction for assets to \$25,000.

The proposed budget also requests \$50 million for reconstruction and renovation grants to help post-secondary institutions meet the requirements of Section 504 of the Vocational Rehabilitation Act of 1978, which requires that architectural barriers for handicapped students be removed.

The President's budget also includes additional funds for higher education in Allowance for Contingencies to deal with the issue of helping middle-income families as an alternative to adopting tax credits for college education expenses. While the proposal and the specific dollar amounts have not yet been completed, a dollar range between \$500 and \$700 million has been indicated by the Administration. Existing programs, new legislation or a combination of the two might also be used to accomplish this goal.

General Education and Research

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,078	1,195	1,221	1,289	1,251	1,338
Outlays	927	1,118	1,164	1,207	1,187	1,247

The President's estimate for fiscal year 1978 includes \$16 million for proposed supplementals, \$11 million of which is for the Corporation of Public Broadcasting. In addition, the Administration proposes to increase the funds for general education programs by \$100 million over the fiscal year 1978 level. The increases in this request are for the additional salary and expense monies reflected under current services and increases for the Library of Congress and the National Foundation for the Arts and Humanities. There is also an \$11 million legislative proposal for special projects under the Office of Education.

Employment and Training Assistance

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	5,890	3,378	3,454	5,427	3,980	4,853
Outlays	3,291	5,044	4,852	5,184	4,878	5,400

Employment and training assistance (ETA) consists of Titles I through IV of the Comprehensive Employment and Training Act of 1973. ETA also includes the recently enacted Youth Employment and Demonstration Projects Act of 1977, which continued the young adult conservation corps (YACC) and created the youth employment demonstration programs (YEDP), youth incentive entitlement pilot projects (YIEPP), and youth employment and training program (YETP).

The Administration's current services estimate for fiscal year 1979 includes only \$247 million in outlays for Title II. This reflects a shift to Title VI of the 125,000 public service employment jobs previously in Title II (see temporary employment assistance). The CBO current services estimate included close to \$1.1 billion for the 125,000 jobs in Title II. In comparing CBO and Administration current services estimates, without Title II, the difference is that the Administration assumes a higher spending level in youth programs.

The President requests \$873 million more in budget authority and \$522 million more in outlays for fiscal year 1979. The increased budget authority includes \$200 million for welfare reform demonstration projects, \$400 million for private sector initiatives, and \$273 for youth programs. The increase in estimated outlays is divided between \$250 million for private sector initiatives, \$125 million for welfare reform demonstration projects, and \$273 million for youth programs.

Temporary Employment Assistance

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	6,847	--	--	1,383	5,955	5,955
Outlays	2,340	4,412	4,765	3,599	5,955	5,955

The CBO current policy estimate for 1979 assumed that Title VI is a countercyclical program and that the number of jobs financed would phase out coincidentally with improvement in the national economy. The recent rise in enrollment levels in Title VI, however, suggests that the program is not likely to respond immediately to a change in the unemployment situation. CBO will revise its estimate upwards to account for the lagged response in the program.

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	2,730	2,750	2,519	2,709	2,578	2,863
Outlays	2,551	2,749	2,703	1,709	2,578	2,842

The major difference between CBO current policy and Administration current services estimates concerns the 1977 appropriation of \$200 million above the Title XX ceiling for day care services. In estimating budget authority, CBO assumes that \$200 million will continue to be authorized in fiscal years 1978 and 1979, while the Administration does not. The 1979 request, however, does include the additional \$200 million. Also, the President's request includes \$85 million for a new initiative in child welfare services which was not included in either the CBO current policy estimate or the President's current services estimate.

Human Development Services

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,383	1,500	1,546	1,603	1,542	2,913
Outlays	1,379	1,454	1,463	1,565	1,532	1,597

NOTE: These figures do not include the Head Start Program, which is included in subfunction 501, Elementary, Secondary and Vocational Education.

Human development services include the Administration for Children, Youth, and Families, the Administration on Aging, and the Administration for Handicapped Individuals. The current services estimate for these programs provides for no growth over the 1978 levels. CBO current policy projects an increase of \$103 million in order to maintain the same program levels that exist in fiscal year 1978. Thus, the President is, in real terms, recommending a decrease in the on-going human development programs.

There is, however, a large difference between the President's request and the Administration's current services estimate for budget authority. This occurs almost entirely because of a proposal for advance funding (\$1.3 billion) for fiscal year 1980 for vocational rehabilitation and aging programs.

Other Employment and Training Programs in Function 500

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	2,419	2,555	3,089	2,856	2,555	2,649
Outlays	2,315	2,614	3,036	2,870	2,525	2,607

The other Department of Labor programs in function 500 are community services employment for older Americans, grants to states for unemployment insurance and employment services, and program administration for employment and training assistance. This category also includes various salary and expense accounts for the Department of Labor, and program administration for the social services program.

The President's current services estimate for fiscal year 1979 represents a \$547 million decrease from 1978 levels. This amount results from a lump sum payment made to the states in fiscal year 1978 for retroactive claims. Thus, net of the \$547 million, the current services estimate indicates no increase in funds over 1978. The CBO current policy projection indicates that a \$301 million increase would be needed to maintain the same level of real services as in 1978 and, therefore, the OMB estimate represents a decrease in those services.

The difference of \$82 million in outlays between the Administration's current services estimate for fiscal year 1979 and the President's request occurs because of \$35 million estimated outlays for a proposed employment opportunities program, and the remainder of \$47 million in outlays spread among salaries and expense accounts in the function.

HEALTH (FUNCTION 550)

This function includes programs for health care services, health research, education and training of health care personnel, and consumer and occupational health and safety activities administered by the Department of Health, Education, and Welfare and other agencies. Medicare and medicaid account for over 80 percent of all health outlays.

Function Totals

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	40,368	46,332	46,304	51,213	52,085	52,604
Outlays	38,785	44,422	44,195	50,446	50,306	49,677

The President's fiscal year 1979 request for this function represents a 14 percent increase in budget authority over the fiscal year 1978 estimate. Of this \$6.3 billion rise over last year, \$5.5 billion are for increases in the medicare and medicaid programs, with the remaining monies spread throughout the discretionary programs in the function. While outlays are projected to grow at the same rate, all but \$450 million of this amount is for medicare and medicaid.

Medicare (Current Law)

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	22,757	27,514	27,481	30,893	31,703	31,703
Outlays	21,549	25,782	25,611	30,058	30,039	29,397 <u>a/</u>

a/ Includes the savings attributed to the cost-containment proposal.

The medicare program, which includes both the hospital insurance (HI) and supplementary medical insurance (SMI) trust funds, is projected on a current services basis to rise in both budget authority and outlays above fiscal year 1978 levels. HI is expected to increase in budget authority and outlays by \$3.5 and \$3.0 billion respectively, while SMI is projected to grow by \$0.8 and \$1.4 billion. While increases in HI outlays are principally a function of a continuing rise in the price of hospital services (15.7 percent from 1978 to 1979), growth in both the population served and the utilization also contribute. Fiscal year 1979 SMI outlays are a function of growth in the price of medical services, in the number of beneficiaries, and in utilization, although utilization increases are a much more significant factor in SMI than in HI. Increases in budget authority for SMI are a function of rising outlays and, for HI, are primarily attributable to the projected growth in payroll tax receipts. Variance between the CBO current policy estimate of budget authority for HI and the President's current services figure is a result of the differences both in the economic assumptions used to calculate receipts and in the estimate of the impact of the Social Security Amendments of 1977 (Public Law 95-216), which changes the proportion of payroll tax receipts going to the HI trust fund.

Differences between the President's request for medicare outlay and the current services level for fiscal year 1979 are attributable to the hospital cost-containment proposal which was introduced last year. This proposal and its projected impact will be discussed later.

Medicaid

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	10,229	10,699	10,699	11,732	12,065	11,952
Outlays	9,713	10,863	10,851	11,732	12,065	11,952

The fiscal year 1979 current services estimate for medicaid represents a \$1.2 billion (11 percent) increase over the President's fiscal year 1978 estimate. Growth in this program is attributable principally to increases in medical prices, although some marginal growth is assumed in both the number of beneficiaries and in utilization. Differences between

CBO current policy projections for fiscal year 1979 and current services estimates occur because of assumptions regarding the number of recipients and utilization. While both assume similar growth in medical prices as they affect medicaid, CBO projects a decrease of 0.5 percent in recipient totals and no change in utilization during fiscal year 1979. The CBO assumption for a decrease in recipients is based both on recent trends and on projections that both the overall SSI and AFDC caseloads will decline during that period. Utilization projections are based on the fact that, over the last four years, real utilization per recipient has remained fairly constant and, if anything, has declined slightly.

The President's 1979 request for medicaid is \$113 million below the current services level. This decline is the result of a variety of legislative proposals included in the budget. Among those that would increase costs are the reintroduction of the child health assessment program (which would cost a projected \$263 million), the inclusion of coverage for all low-income pregnant women (\$118 million), an increase in ceilings and federal matching for Puerto Rico and other territories (\$32 million), and an improvement in coverage for migrants (\$8 million). Offsetting these are the impact of cost-containment on medicaid (-\$100 million), improved quality control on eligibility (-\$399 million), and a medicaid/medicare common audit procedure (-\$35 million). While the last two savings proposals are possible under current law, the Administration intends to offer legislation to both mandate and clarify these programs. Also, though the Administration projects a savings of almost \$400 million from the quality control program, it is difficult to see how this level of savings is feasible. A decrease of almost one million recipients would be required to achieve a \$400 million savings and, given the fact that quality control measures are already in effect for both the AFDC and SSI programs, similar efforts in medicaid would probably not lead to a reduction of this magnitude in that program.

Cost-Containment

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	-	-	-	-	-	-
Outlays	-	-120	-40	-1,629	-	-724

The Administration proposed a cost-containment measure in the first session of this Congress. Under this, a cap on total hospital revenues would be established. This cap would be based on a formula that would allow for overall inflation and specific growth in the hospital sector. Savings are calculated on the basis of the difference between hospital reimbursement for medicare and medicaid, under current law and with the cap on revenues. It is difficult to fully account for the large variance between CBO estimates of the savings and those of the Administration; no documentation was provided as to how the President's figures were calculated. However, differences in base year totals for hospital expenditures, projected rates of growth in hospital costs, overall economic assumptions, and the effect of exceptions to the cap that is provided for in the proposal would account for the bulk of these differences.

Other Health Programs

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	7,382	8,012	8,179	8,473	8,202	8,816
Outlays	7,513	7,674	7,630	8,553	8,099	8,207

Included in this category are the major HEW discretionary programs for health services, research, education, and training. In addition, the Occupational Health and Safety Administration, the Consumer Products Safety Commission, the Mine Safety and Health Administration, and the Animal and Plant Health Inspection Services are also included.

There is a \$271 million difference between the CBO current policy estimate for 1979 and that of the President because the CBO estimate is based on total 1978 budget authority inflated to maintain the same real level of services, while the President's estimate does not include increases necessarily tied to inflation and does include cutbacks in some programs. For example, the National Institute of Health (NIH) budget authority request in 1979 is 1.4 percent above the 1978 level, and only one program within the agency--the National Institute of Child Health and Human Development--shows an increase significantly above normal inflationary pressures. Thus, in

real terms, the President's aggregate current services request for NIH has not kept pace with inflation.

A major cutback in current services occurs in the Health Resources Administration. A decrease of \$202 million in 1979 budget authority is requested. All of this decrease is in the Health Professions Education and Nurse Training Fund programs and results from an administration policy to begin concentrating on the distribution rather than the overall supply of health care professionals.

The President's 1979 request shows an increased budget authority of \$614 million over the OMB current services estimate. Out of this, \$447 million covers forward funding of programs in the Health Services Administration.

The net increase for all other new initiatives in the President's request for 1979 is \$167 million. The major new legislative proposal in this category is the \$60 million budget authority proposal for the Adolescent Health Services, and Pregnancy Prevention Program, which will now be located in the Office of the Assistant Secretary of Health. It should also be noted that the Health Statistics and Health Maintenance Organization programs have been moved to this office. In addition, over \$68 million in new budget authority is requested for a major expansion of existing programs providing health and related services to adolescents. These program initiatives are located throughout a number of agencies in HEW and include increased funding for community health centers, family planning programs, and health education.

Finally, with the exception of the transfer of the Mine Enforcement and Safety Administration to the Department of Labor, the request for programs in the consumer and occupational health area are increased to maintain the same level of services in real terms.

INCOME SECURITY (FUNCTION 600)

This function is the largest in the federal budget; it includes more than one third of all federal outlays. Within the function, social security is the largest single program; social security outlays represent almost 65 percent of income security outlays and some 20 percent of the outlays in the entire federal budget. Other major programs in the function include: federal employee retirement and disability insurance, unemployment compensation, aid to families with dependent children, supplemental security income, food stamps, child nutrition and related programs, and housing assistance. The President proposes adding a new program to the function in fiscal year 1979, the crude oil equalization refund.

Function Totals

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	168,566	179,741	180,364	197,778	189,168	190,855
Outlays	137,004	145,514	147,624	160,211	159,181	160,024

Currently, growth in the income security area results primarily from the automatic adjustment of benefits for inflation. In several of the major programs, benefit increases are tied by law to increases in the consumer price index (CPI) or other indexes of consumer prices. Automatic indexing is currently required in social security, federal employee retirement and disability insurance, supplemental security income and food stamps. Benefits in the aid to families with dependent children also rise with prices, but do so as a result of annual state legislation or state law providing for indexing. In addition, benefits to new retirees in the social security program and to recipients of unemployment compensation rise with increases in wages.

While expenditures also tend to rise with increases in the eligible populations, this effect is mitigated in fiscal year 1979 by the improved economic conditions that will actually reduce the number of recipients in unemployment insurance and other programs where eligibility is sensitive to economic conditions.

The President is proposing a number of legislative initiatives for fiscal year 1979 in the income security area. In addition, the President is proposing a major welfare reform initiative, the program for better jobs and income. While this proposal would have only a limited impact on the fiscal year 1979 budget, the budgetary implications are considerably more important in future years and are discussed in Chapter III of this report.

Social Security Trust Funds (OASDI): Existing Law

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	81,169	90,661	89,722	102,229	101,515	101,515
Outlays*	85,068	94,743	94,769	104,599	105,102	105,102

NOTE: Estimates shown are for the social security trust funds and include intragovernmental transfers to railroad retirement. The estimates are consistent with those on page 348 of the President's budget.

The budget for the old age, survivors and disability insurance (OASDI) trust funds indicates that outlays are expected to continue to exceed revenues and budget authority through 1979. As a result of the Social Security Amendments of 1977 (Public Law 95-216), however, the deficit is expected to be narrowed in 1979 and eliminated in 1980. The newly legislated increases in tax rates and the tax base will raise budget authority starting in 1979, while other provisions of the new law will, on balance, result in lower outlays starting in 1978.

The small divergence (half of one percent) between the CBO and Administration estimates of outlays in 1979 can be attributed partly to the lower cost-of-living increase for beneficiaries assumed by CBO at the time of the estimate, and partly to differences in estimating methodologies. CBO and Administration estimates of budget authority differ largely because of varying projections of total wages and salaries in covered employment.

Social Security: (OASDI) Proposed legislation

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	--	--	--	--	--	15
Outlays	--	--	-40	--	--	-644

The Administration is proposing legislation that is expected to lead to a reduction in outlays of \$644 million in 1979. Included in this legislation will be a request to limit the amount going to dependent children who remain in school past the age of 18 to the amount they could obtain in the basic educational opportunity grants (BEOGS) program. Another proposal is to eliminate the minimum benefit for new beneficiaries and to freeze the minimum benefit for current recipients. (The Social Security Amendments of 1977, Public Law 95-216, did curb the minimum by freezing the benefit, but only for new beneficiaries.) This new proposal is estimated to reduce OASDI outlays by \$40 million in 1978 and \$254 million in 1979.

Two other legislative proposals would adjust the timing of payments and reduce outlays. For those who delay in applying for benefits, retroactive payments would be limited to three months instead of twelve. A saving of \$121 million is estimated, although if the effect were to induce more prompt filing for benefits, outlays might not fall significantly. Another provision would move the start of benefits for new retirees to the month after the month in which eligibility was met (outlay reduction of \$138 million).

The small increase in budget authority occurs because of the additional interest on the proposed savings.

Civil Service Retirement and Disability Trust Fund

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	16,480	17,253	17,676	18,780 a/	19,242	19,242
Outlays	9,564	10,881	10,896	12,125	12,164	12,164

a/ Adjusted by \$783 million to remove the effects of the anticipated fiscal year 1979 payraise.

Outlays for the civil service retirement and disability trust fund are projected to increase about \$1.3 billion over fiscal year 1978. This increase reflects continued growth in the number of beneficiaries (\$1.6 million in fiscal year 1979) and semi annual increases in benefits which are tied to the CPI. Budget authority, representing income to the civil service and other retirement funds, is estimated by the Administration to increase \$1.5 billion over fiscal year 1978. This increase does not include any anticipated payraise which may occur in fiscal year 1979. Future payraises increase both the employer and employee contributions and the amortization payments to cover the associated increase in fund liability.

The major difference in budget authority estimates in fiscal years 1978 and 1979 is the higher covered payroll assumed by the Administration. The payraise has been removed from the CBO budget authority estimate for fiscal year 1979 for comparability to the Administration estimate. The payraise would add \$783 million in budget authority under the CBO assumptions. Outlay differences are negligible.

The Administration proposes that a commission be established to examine the interrelationships of civil service and other government and private pension plans.

Unemployment Compensation Subfunction

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	16,857	14,562	15,360	14,541	17,232	17,027
Outlays	15,258	11,492	12,360	11,426	11,821	11,827

The unemployment compensation subfunction (603) is composed of two accounts. The unemployment trust fund account (UTF), which finances the separate state unemployment insurance systems as well as the railroad unemployment insurance program, and the federal unemployment benefit account (FUBA), which pays benefits to unemployed federal employees, ex-servicemen, and other recipients.

Differences between the CBO and Administration estimates for unemployment compensation occur because of differences in statistical models used for projections and in economic and demographic assumptions.

The President is proposing legislation to decrease the federal unemployment tax rate from 0.7 percent to 0.5 percent on January 1, 1979. This change will reduce revenues to the unemployment trust fund by \$600 million in fiscal year 1979. This loss in revenues will mean that the unemployment trust will not have the funds to repay a \$400 million advance from the general fund that was scheduled for repayment during fiscal year 1979. The net impact of this legislation on fiscal year 1979 budget authority is -\$200 million (-\$600 million resulting from the reduced revenues and \$400 million resulting from the cancellation of the repayment). Since the repayment is an intragovernmental transfer, there are no overall outlay implications of the legislation.

Supplemental Security Income (SSI): Existing Law

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	5,895	5,250	5,250	6,069	5,715	5,715
Outlays	5,297	5,689	5,974	6,031	5,555	5,555

Federal outlays for SSI recipients are increasing primarily because monthly basic benefit levels increase automatically with changes in the CPI. The total number of federal SSI recipients has been relatively constant in recent months.

The increase in SSI outlays in fiscal year 1978 and the decrease shown in fiscal year 1979 in the Administration's estimates are a result of recent legislation. Public Law 95-216, passed December 20, 1977, requires that if the day regularly designated for the delivery of benefit checks falls on a Saturday, a Sunday, or a legal public holiday, the benefit checks will be mailed on the first preceding work day. SSI checks are usually mailed on the first day of the month. Since October 1, 1978, is a Sunday, October 1978 checks will be mailed on Friday, September 29. This means that 13 monthly payments will be included in fiscal year 1978 totals and only 11 months of outlays will be included in fiscal year 1979. The CBO estimates did not take account of this provision in Public Law 95-216.

There are no proposed legislative changes in SSI that influence the fiscal year 1979 budget; however, the President's welfare reform proposal would consolidate SSI into the better jobs and income program beginning July 1, 1981.

AFDC and Other Assistance Programs

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	6,306	6,486	6,541 <u>a/</u>	6,445	6,823 <u>b/</u>	6,846 <u>b/</u>
Outlays	6,351	6,368	6,711 <u>a/</u>	6,445	6,823 <u>b/</u>	6,846 <u>b/</u>

a/ Includes \$27 million in Administrative expenses not in the CBO estimates.

b/ Includes \$32 million in Administrative expenses not in the CBO estimates.

The President's estimates of AFDC expenditures reflect the Administration's projection of the caseload, which falls to and remains at 11.0 million recipients in both fiscal years 1978 and 1979 (down from 11.2 million recipients in fiscal year 1977). This contrasts with the CBO projection of the beneficiaries, which declines to 10.8 million recipients in fiscal year 1978 and 10.7 million recipients in fiscal year 1979. The lower level of beneficiaries, along with a somewhat lower average benefit level, results in a lower estimate of outlays by CBO.

The Administration has legislative proposals for fiscal year 1979 that have a net cost of \$23 million. These include a proposal to improve the emergency assistance program (cost of \$125 million) to help individuals affected by a national or regional disaster, including an energy emergency caused by extreme cold or drastic increases in energy prices.

The President's proposals also include a measure to replace the current method of itemizing work expenses, with a standard work expense disregard of 15 to 25 percent of gross earnings, the percentage to be chosen by the states (saving \$119 million). This proposal contrasts with one reported by the Senate Finance Committee in H.R. 7200, which would raise the standard income disregard from \$30 to \$60 (for those employed full time) but would eliminate the work expense disregard, except for a small allowance for child care expenses (saving \$190 million). Other budgetary proposals by the President include liberalizing AFDC benefits for Guam,

Puerto Rico, and the Virgin Islands (cost of \$26 million), extending federal matching for child support enforcement in non-AFDC cases (cost of \$12 million), and eliminating incentive payments to states and localities in interstate collection cases (saving \$21 million).

The President's welfare reform proposal would consolidate AFDC into the better jobs and income program beginning July 1, 1981.

Food Stamp Program

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	5,506	5,619	5,618	6,185	5,779	5,779
Outlays	5,399	5,312	5,655	6,143	5,748	5,748

The President's fiscal year 1979 budget request for the food stamp program reflects no new legislative initiatives, but does assume implementation of regulations under the new food stamp law (Public Law 95-113) during the latter part of fiscal year 1978. The Administration's 1978 outlay estimates appear to assume earlier implementation of the regulations than does CBO, leading to higher 1978 outlay estimates. Administration estimates for fiscal year 1979 (which are \$395 million lower than those of CBO) assume an average participation of 18.0 million persons per month, reflecting a slight increase over the 17.7 million in fiscal year 1978. CBO estimates for fiscal year 1979 show a lower level of participation, approximately 16.8 million, but higher average benefits, reflecting increased food price inflation. The total value of food stamps issued in fiscal year 1979 is estimated by CBO to be approximately \$5,726 million, compared to the Administration's estimate of \$5,391 million.

The President's welfare reform proposal would consolidate food stamps into the better jobs and income program beginning July 1, 1981.

Subsidized Housing

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	28,034	31,600	31,612	33,922	24,361	24,791
Outlays	2,491	3,122	3,104	4,463	3,595	3,671

Almost all of the budget authority in this category represents activity in the Department of Housing and Urban Development's (HUD) Section 8 and public housing programs. Under the President's proposal, HUD will have \$31.1 billion in budget authority available for use in fiscal year 1979 to subsidize an estimated 400,000 additional units of lower-income housing. This is about 20,000 units more than HUD is currently estimating for fiscal year 1978. In addition to the \$24.7 billion in new budget authority requested for these programs in fiscal year 1979, HUD expects to carry over \$6.4 billion in unused 1978 authority. HUD projects the \$6.4 billion will not be needed in fiscal year 1978 because of a shift in activity to programs with shorter contract terms. The HUD budget program for fiscal year 1979 continues this shift with shorter contract terms and, in addition, assumes no increase in the per-unit subsidy costs from 1978 to 1979. The CBO current policy estimate for fiscal year 1979 assumes a longer average contract term and increasing costs.

The large difference between the President's fiscal year 1979 outlay estimate and the CBO current policy estimate stems from substantially different assumptions concerning the program mix of units under subsidy and the per-unit subsidy cost. The President's budget states that emphasis will be shifted towards renovation of old buildings rather than the building of new units. This will result in lower per unit costs than those assumed by CBO.

Operating Subsidies and Other Assisted Housing

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	596	685	685	724	717	803
Outlays	467	578	675	658	680	739

Operating subsidies have long been provided to owner/operators of public housing projects. These subsidies are intended to cover all project operating costs. For fiscal year 1979, the President is requesting \$729 million for this program, an increase of \$44 million over the 1978 funding level, approximating the CBO current policy estimate. In addition, the President's 1979 request includes \$74 million in budget authority, and \$52 million in outlays for a new program to provide operating subsidies to HUD-insured projects experiencing financial troubles. This additional subsidy is expected to reduce mortgage defaults on these projects.

Child Nutrition and Related Programs (Existing Law)

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	3,369	3,364	3,395	3,297	3,438	3,681
Outlays	3,129	3,480	3,585	3,627	3,548	3,744

The fiscal year 1979 budget request reflects significant changes in the programs. A \$308 million increase in the women, infants, and children (WIC) program more than doubles the current level. A small portion of this

increase results from transferring the supplemental commodity program to WIC. Exactly what form the WIC expansion will take has not been detailed at this time.

Child Nutrition (Proposed Legislation)

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	--	--	--	--	-	-217
Outlays	--	--	--	--	--	-216

The fiscal year 1979 budget request proposes the elimination of the special milk program in all schools that operate the national school lunch program. Milk is already a required component in both the lunch and breakfast programs. This proposal has been made in previous years and has been rejected before by the Congress. In addition, the Administration proposes to modify the cost-of-living increases for subsidies to children from non-needy families. Future increases in federal spending will target more on the needy children and the needy areas.

Fuel Efficiency Tax Refund: Proposed Legislation

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	--	--	167	--	--	1,333
Outlays	--	--	167	--	--	1,333

As part of the Administration's energy legislation, individuals will receive a refund from the crude oil equalization tax in the form of either reductions in their federal income tax or direct payments from the Internal Revenue Service.

Remaining Programs in Function 600

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	4,354	4,261	4,505	4,803	4,346	4,325
Outlays	3,980	3,849	3,935	4,694	4,145	4,155

A number of programs have been grouped into this category. The largest in dollar terms is railroad retirement. Other programs grouped into this category include special benefits for disabled coal miners, the judiciary trust funds, and Cuban refugee assistance.

VETERANS' BENEFITS AND SERVICES (FUNCTION 700)

This function provides a variety of benefits and services to veterans and their families and survivors. These benefits include compensation to veterans for service-incurred disabilities and to the survivors of veterans dying in service, income assistance for needy veterans disabled from causes not related to military service, education benefits for recently discharged veterans, medical care for disabled and elderly veterans, and loan guarantees for veterans wishing to purchase homes. Virtually all veterans' benefits are administered by the Veterans' Administration.

Function Totals

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	19,069	19,359	18,836	20,103	18,587	19,074
Outlays	18,038	19,340	18,698	19,915	18,889	19,257

The President's budget proposes increases in 1979 for veterans' compensation and pensions and for hospital and medical care for veterans. Reduced funding is proposed for readjustment benefits primarily because of the decline in the number of eligible veterans. The budget also does not provide for any further cost-of-living adjustment for readjustment benefits. The Administration is proposing legislation to obtain reimbursement from health insurers for treatment of insured veterans for nonservice-connected disabilities at VA hospitals.

Compensation and Pensions

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	8,983	9,590	9,606	10,001	9,577	9,998
Outlays	9,000	9,536	9,564	9,939	9,586	9,981

The veterans' compensation and pensions programs, unlike nearly all other entitlement programs, are not indexed to keep pace with inflation. Although in recent years cost-of-living increases have been applied to both of these programs each year, under current law the increases must be legislated by Congress annually. It should be noted in regard to the above table, that the CBO current policy estimate assumes annual cost-of-living legislation, while the President's current services estimate does not. The cost of the President's legislative proposals is included in the 1979 request column.

The President is proposing legislation for the compensation program that would increase rates by 5.8 percent (as of October 1, 1978) and would extend housebound allowances to recipients of dependency and indemnity compensation. Legislation is also being proposed for the pension program, although the details of the proposal have not yet been released. It is expected that the proposal will be somewhat similar to the pension reform bills (H.R. 10173 and S. 2384) now under consideration by the House and Senate Veterans' Affairs Committees. However, it is unlikely that the \$111 million included in the budget for pension legislation would be sufficient to cover a full year's cost of a major restructuring of this program.

Readjustment Benefits

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	3,984	3,231	2,648	3,347	2,119	2,019
Outlays	3,700	3,856	3,102	3,711	2,708	2,608

The number of veterans receiving readjustment benefits is expected to decline from 1.8 million in fiscal year 1977 to 1.1 to 1.2 million in fiscal year 1979. The President's budget for 1979 does not provide for any adjustment for inflation that occurs during 1978. The Administration also proposes that correspondence and flight training be dropped for an estimated saving of \$100 million in 1979.

The CBO current policy estimate for 1979 assumes that the Congress will provide a cost-of-living increase of 6.1 percent for readjustment benefits effective October 1, 1978. The GI Bill Improvements Act of 1977 (Public Law 95-202) enacted last November, provided a 6.6 percent cost-of-living increase. The CBO 1978 and 1979 cost estimates will be reduced to reflect recent data on unit costs, but not to the levels estimated by the Administration because of somewhat higher estimates for the number of veterans receiving training.

Hospital and Medical Care (Current Law)

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	5,074	5,429	5,451	5,580	5,630	5,937
Outlays	4,708	5,285	5,242	5,510	5,684	5,899

The President's fiscal year 1979 outlay estimate for the veterans' hospital and medical care programs is \$657 million above the 1978 level. This increase is largely composed of a \$560 million increase in outlays for the medical care account, which results primarily from the VA's intention to increase staff to patient ratios and to open 15 new alcohol and drug abuse treatment units. There is also an increase in outlays of \$103 million for major projects construction, which will be directed towards construction of two replacement hospitals, three new nursing care units, and two outpatient clinics.

Hospital and Medical Care (Proposed Legislation)

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	--	--	--	--	--	-142
Outlay	--	--	--	--	--	-142

Several legislative proposals are included in the President's fiscal year 1979 request which would have a net savings of \$142 million. These proposals include legislation to provide professional mental and psychological readjustment services for Vietnam Era veterans (\$9.9 million), to require reimbursement to the VA by private insurers for the cost of medical treatment to veterans for nonservice-connected disabilities (-\$120 million), to contract with community agencies for the treatment of drug and alcohol abuse patients (\$2.4 million), to limit travel reimbursement (-\$38.5 million), and to extend the Physicians and Dentists Pay Comparability Act (\$3.9 million).

All Other Veterans' Programs

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,028	1,109	1,131	1,175	1,261	1,262
Outlays	630	663	790	755	911	911

The major accounts included in this category are the veterans' housing assistance and burial benefits programs and the general operating expenses account. The President proposes no major changes to these accounts for fiscal years 1978 and 1979.

ADMINISTRATION OF JUSTICE (FUNCTION 750)

Function 750 includes activities of the Federal Bureau of Investigation, the Immigration and Naturalization Service, the Drug Enforcement Administration, the Federal Prison System, the Law Enforcement Assistance Administration, the Customs Service, the Legal Services Administration, the Equal Employment Opportunity Commission and the Judiciary.

Function Totals

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	3,601	3,738	3,768	4,015	3,884	4,144
Outlays	3,600	3,845	3,896	4,035	4,056	4,211

The President's 1979 budget request is based on a redirection of resources in law enforcement efforts, immigration administration, federal correctional activities, and an increase in the effectiveness of the Equal Employment Opportunity Commission and the Office of Civil Rights in the Department of Health, Education and Welfare (HEW). The budget request for fiscal year 1979 represents a 11 percent increase in budget authority over the fiscal year 1978 appropriation. The request is 3 percent more than the CBO current policy estimate for fiscal year 1979, and would therefore slightly increase the real resources devoted to this area. The major increases are made in the areas of civil rights, legal services, and federal correctional facilities. New major program initiatives in these agencies include increased law enforcement directed towards organized crime, increased enforcement of immigration laws, reorganization of the Equal Employment Opportunity Commission, and the construction and increased use of minimum security federal prison facilities.

Federal Law Enforcement and Prosecution

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,685	1,787	1,827	1,919	1,898	2,015
Outlays	1,673	1,788	1,831	1,917	1,899	2,011

The President's 1979 budget request for law enforcement and prosecution activities is \$190 million above his estimate for fiscal year 1978--an increase of over 10 percent. The amount requested exceeds the CBO current policy estimate by \$96 million, with the largest differences proposed for the Immigration and Naturalization Service (\$12 million), the Customs Service (\$19 million), the Equal Employment Opportunity Commission (\$28 million), and the Office of Civil Rights in HEW (\$36 million). The increases for the Immigration and Naturalization Service and the Customs Service combined are to be directed toward improved enforcement at the border and points of entry, increased enforcement of immigration laws, and the fulfillment of the President's major policy initiatives directed at undocumented aliens. The growth in budget authority for the Equal Employment Opportunity Commission and the Office of Civil Rights reflects the extensive reorganization aimed at more efficient processing of discrimination charges and increased investigation to correct discriminatory patterns. Part of this request is to sustain the growth in activities of both agencies that may be generated if anticipated supplemental appropriations of \$40 million are granted in fiscal year 1978. Reductions in this area include a proposed decrease in FBI personnel and resources directed toward domestic intelligence, military deserters, and other areas in which state and local governments have developed enforcement capabilities. As a result, the requested appropriation for the FBI is only \$556 million--5 percent above the fiscal year 1978 appropriation.

Federal Litigation and Judicial Activities

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	863	1,002	1,004	1,077	1,042	1,133
Outlays	842	997	942	1,071	1,042	1,118

This subfunction includes all judicial activities and federal litigation, both civil and criminal, of the Department of Justice. The President is proposing an increase of \$131 million in funding for these activities, 13 percent above the fiscal year 1978 level and 5 percent above the CBO current policy estimate. The major increase above current policy in this area is for the Legal Services Corporation. With a \$255 million request for fiscal year 1979, this represents a 15 percent increase in real resources for legal services over the CBO current policy level. Further details on the implications of such increases in legal services for the nation are discussed in a recent CBO publication. ^{5/}

^{5/} Congressional Budget Office, The Legal Services Corporation, Budgetary Issues and Alternative Federal Approaches, July 1977.

Law Enforcement Assistance

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	758	657	657	703	659	651
Outlays	848	769	815	751	819	717

For fiscal year 1979, the President's request of \$641 million reflects a slight drop in resources for the Law Enforcement Assistance Administration (LEAA) compared with the fiscal year 1978 level of \$646 million. Nevertheless, because there are substantial unobligated balances available in 1978, the proposed funding level for 1979 represents a substantial decline in program activity. The President projects total obligations of \$642 million by LEAA in fiscal year 1979, compared to \$812 million in 1978.

Other Administration of Justice

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	295	292	280	310	285	345
Outlays	237	291	308	296	296	365

This category includes the administration and construction of federal correctional facilities and activities, and the general offsetting receipts for function 750. The \$315 million request in budget authority in fiscal year

1979 for federal prison activities represents a 21 percent increase over fiscal year 1978 budget authority and a 13 percent increase over the CBO current policy level for fiscal year 1979. A large part of this increase will be directed toward relief of overcrowding of prison facilities by opening several new minimum security facilities and shifting some prisoners from maximum or medium security facilities to more relaxed environments.

GENERAL GOVERNMENT (FUNCTION 800)

The programs in this function are designed to carry out the administrative responsibilities of the federal government through the Legislative Branch, the White House, and the Executive Office of the President. The collection of revenues, management of federal property, oversight of civilian personnel, and the administration of certain trust territories are also included in this function.

Function Totals

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	3,761	3,518	3,645	3,877	3,992	4,170
Outlays	3,265	3,688	3,717	3,903	3,991	4,113

The President's request of \$4.2 billion for fiscal year 1979 is \$652 million, or 19 percent, above the current appropriation for fiscal year 1978, and \$293 million, or 8 percent, above the CBO current policy estimate for fiscal year 1979. The major increases occur in the Legislative Branch (\$109 million), the Internal Revenue Service (\$211 million), and other Treasury Department central fiscal operations (\$145 million).

Legislative Branch

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	871	832	869	893	913	941
Outlays	841	913	862	960	914	941

The President's fiscal year 1979 request is \$109 million, or 13 percent, over the current CBO estimate for fiscal year 1978. One of the major reasons for this growth is the President's request for a 22 percent increase (\$23 million) in Senate salaries over the fiscal year 1978 appropriation, and a 28 percent (\$16 million) increase in budget authority for joint items. For fiscal year 1979, the President has estimated that outlays for the Congressional printing and binding account will decrease from the estimated 1978 level of \$61 million to \$39 million, even though an increase of 3 percent has been requested for budget authority. The CBO current policy projections assumed that outlays for this activity would increase.

For fiscal year 1978, the President is requesting a supplemental of \$33 million for the construction of an extension to the new Senate office building. No outlays from this supplemental have been included by the President in either fiscal year 1978 or fiscal year 1979. The CBO estimates do not include any new budget authority for this account, in either fiscal year.

Internal Revenue Service

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,758	1,809	1,848	1,944	1,922	2,020
Outlays	1,741	1,813	1,846	1,922	1,920	2,012

Two accounts of the Internal Revenue Service have been included in this group--the accounts, collection and taxpayer service, and the compliance activities. The President has requested a \$15 million supplemental in fiscal year 1978 for such things as modernizing the IRS computer system, and additional appropriations of \$21 million for 1978 and \$29 million for 1979 to administer and carry out the tax provisions contained in the President's energy legislation. (The CBO estimates do not include any additional funds for these purposes.) The proposed fiscal year 1979 funding level for these two accounts, excluding the proposed supplementals, is \$182 million above the fiscal year 1978 level--an increase of 10 percent. This represents an increase of 3 percent over the CBO current policy estimate for fiscal year 1979.

Other Central Fiscal Operations

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	205	213	261	230	351	358
Outlays	189	214	263	221	348	355

The President has requested supplementals totalling \$29 million in fiscal year 1978 for two Department of Treasury accounts to compensate banks for maintaining tax and loan accounts and issuing and redeeming savings bonds. The Administration's 1979 request reflects a continuation of this compensation program at a funding level of \$86 million. The CBO estimates for both fiscal years 1978 and 1979 for these accounts do not include this provision because no money has yet been appropriated for this purpose. One other major difference between CBO and the President is in the offsetting receipts for central fiscal operations. The Administration is currently estimating that receipts from charges for administrative expenses of the Social Security Act will be \$165 million in fiscal year 1978 (\$21 million lower than the CBO estimate), and that the receipts will decrease even further, to \$141 million, in fiscal year 1979. This represents a 24 percent decrease from the CBO current level estimates for fiscal year 1978, and a decrease of 15 percent from the President's estimate for that year.

Other General Government

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	927	664	667	810	806	851
Outlays	494	748	746	800	809	805

This grouping represents the central personnel management, executive direction and management, and other administrative activities of the federal government. The President has proposed the establishment of an Office of Administration within the Executive Office of the President, and is requesting \$4 million in fiscal year 1978 and \$7 million in fiscal year 1979 for this purpose. One of the major reasons for the \$184 million, or 28 percent, increase in the President's 1979 request from the fiscal year 1978 level is the change in budget authority for the federal buildings fund from a -\$75 million in 1978 (a rescission of existing budget authority) to zero in 1979. As they did in the fiscal year 1978 budget, the administration has again requested \$23 million for a new Government Printing Office building;

CBO has not included any funds for this purpose in its estimates either in 1978 or 1979. The President's request for 1979 also includes a 16 percent (\$22 million) increase in funds for the administration of territories and the Trust Territory of the Pacific Islands. The only other significant change in this function is in the estimate of mineral receipts which go into the Alaska native fund. OMB has estimated that receipts will decline in fiscal year 1979, from \$94 million to \$87 million. The CBO estimate assumed that these receipts would increase to \$115 million in fiscal year 1979.

GENERAL PURPOSE FISCAL ASSISTANCE (FUNCTION 850)

This function includes the general revenue sharing programs, anti-recession financial assistance, payments in lieu of taxes, broad-purpose shared revenues, and payments and loans to the District of Columbia. The general revenue sharing and antirecession financial assistance programs account for approximately 85 percent of the outlays.

Function Totals

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	9,272	9,596	9,691	9,336	9,493	16,632
Outlays	9,499	9,737	9,860	9,391	9,492	9,636

Almost all of the increase in budget authority from 1979 current services to 1979 budget request is attributable to the President's proposed legislation for a taxable municipal bond option. The other proposed legislation is mineral impact loan assistance.

General Revenue Sharing Trust Fund

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	6,655	6,855	6,855	6,855	6,855	6,855
Outlays	6,760	6,814	6,827	6,862	6,852	6,852

President Carter recommends full funding of the general revenue sharing program, which was extended in 1976 through fiscal year 1980. The authorization level is \$6.855 billion in fiscal years 1978 through 1980.

Anti-recession Financial Assistance Fund

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,570	1,400	1,400	1,040	1,040	1,040
Outlays	1,699	1,550	1,573	1,040	1,050	1,050

This program makes funds available to state and local governments experiencing high levels of unemployment. Funding levels are determined on a quarterly basis automatically, using a formula tied to the national rate of unemployment. Authorization for the current program expires at the end of fiscal year 1978.

The budget includes a request for fiscal year 1979 of \$1,040 million in budget authority and \$1,050 million in outlays for this program. While the Administration notes that it has left room in the budget for an extension of the program, it indicates that the program is still under review and that a decision concerning its future has not yet been made.

It should be noted that the President's request for fiscal year 1979 is substantially higher than the \$740 million that would be required if the program is extended without change and if unemployment rates were to follow the assumptions made in the President's budget. The following table shows estimates of outlays by quarter using the Administration's projection of unemployment rates. (The CBO current services estimate of 1979 outlays was 1,040 million based on assumed unemployment rates of 6.6, 6.5, 6.4 and 6.3 in the relevant quarters.)

Fiscal Year Quarter	Relevant Calendar Year Quarter	Relevant Calendar Quarter Unemployment Statistics (percent)	Quarter Costs (in millions)
78:1	77:2	7.1	455
78:2	77:3	6.9	395
78:3	77:4	6.6	305
78:4	78:1	6.4	245
79:1	78:2	6.3	215
79:2	78:3	6.3	215
79:3	78:4	6.2	185
79:4	79:1	6.0	125
80:1	79:2	6.0	125
80:2	79:3	5.9	---

A major consideration in evaluating this program is the ability of the program to meet its objectives. In a recent General Accounting Office (GAO) study, there was a challenge made to the program's effectiveness in stimulating the economy. ^{6/} By using the absolute levels of unemployment rather than the changes in unemployment rates, the distribution of the allocations is oriented to those states and localities affected by a long-term decline rather than a recession. If the intent of the program is to provide assistance for areas experiencing long-term economic problems, then, according to the GAO study, the program should be designed more specifically to solve those problems in order to be more effective.

Taxable Municipal Bond Option

President Carter proposes legislation that provide state and local governments with the option of issuing taxable rather than tax-exempt bonds. According to the Administration, the proposed legislation is designed to lower the state and local government's costs of borrowing by reducing the supply of tax-exempt bonds (and consequently lowering their interest rates), and will supposedly make it easier for municipalities to finance their activities. This latter effect occurs because tax exempt organizations such

^{6/} General Accounting Office, Anti-recession Assistance--An Evaluation, PAD 78-20, November 29, 1977.

as pension funds or foundations currently do not invest in tax exempt municipal securities because their low interest rates might be interested in taxable bonds bearing higher rates.

If this proposal is enacted, the Treasury would provide a subsidy payment of 35 percent of the net interest cost for bonds issued on a taxable basis in fiscal year 1979 and 1980, and 40 percent for the years after that. Budget authority of \$7.1 billion is requested in fiscal year 1979 in support of this proposal. This represents the total obligations of the federal government to pay interest subsidies over the life of the municipal bond. For this estimate, the Administration assumed that \$5.5 billion in short-term taxable bonds and \$8.8 billion in long term taxable bonds would be issued in fiscal year 1979. Short-term bonds were assumed to have an average life of 10 years and an interest rate of 7.2 percent. The life of long-term bonds was assumed to be 22 years at an interest rate of 8.4 percent.

The Administration estimates outlays in fiscal year 1979 at \$99 million. The outlays represent less than a full year's cost for two reasons. First, it was assumed that bonds will be issued continuously throughout the year and therefore on average would not accrue a full year's worth of interest. Second, it was assumed that the interest payments would be on a semiannual basis.

It is expected that the federal government will incur a net loss if this proposal is enacted, since the subsidy will exceed the anticipated increase in revenues. For fiscal year 1979, estimated outlays are \$99 million, while the estimated increase in unified budget receipts is \$23 million. By fiscal year 1983, the estimated outlays grow to \$2.2 billion and the increase in receipts is \$1.5 billion. A possible hidden cost in this proposal may result if taxable municipal bonds become competitive with corporate and Treasury securities. This may exert upward pressure on interest rates and increase the cost of Treasury borrowing.

The Administration assumes that if the proposed legislation is passed, 40 percent of municipal bonds issued in 1979 would be taxable in fiscal year 1979. The percentage is assumed to rise to 50 percent in fiscal year 1980 and then gradually decline to 25 percent. The assumed percentages may be overly optimistic. In fiscal year 1979, it is unlikely that the market will respond fast enough to the new option of taxable municipal bonds. In addition, it is unlikely that the interest rates assumed by the Administration are high enough to convince as many investors to enter the taxable municipal market as assumed. As a result, given the assumptions about timing and interest rates used by the Administration, budget authority and outlays for fiscal years 1979-1983 are probably overestimated. On the other

hand, if the Administration were to try to achieve the market percentages discussed above, interest rates would probably have to be higher than assumed and costs would probably rise above the official estimate.

Mineral Impact Loan Assistance

The proposed legislation provides loans for states who face major demands for public facilities and services such as schools and hospitals because of mineral development on federal lands. The loans are designed to assist states in advance of increasing local tax rates, or before distribution of mineral receipts that are designed to offset some of the costs of the new facilities. The interest rate assumed for the loans would be the current Treasury rate. The request for budget authority and outlays for fiscal year 1979 is \$40 million.

Other General Purpose Fiscal Assistance

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	1,049	1,341	1,437	1,441	1,598	1,603
Outlays	1,043	1,373	1,461	1,490	1,589	1,593

Approximately \$88 million of the proposed increase in funding from the President's 1978 estimate to the 1979 budget request for general purpose fiscal assistance is for the District of Columbia. (It should be noted that the President's budget transfers loans for capital outlays and loans for the stadium sinking fund and related offsetting receipts for the District of Columbia from function 450 to function 850.) There is also an increase in the Forest Service permanent appropriations because of an increase in timber sales, increased payments for the construction of forest roads, and the effect of new legislation concerning sale area betterment payments. The current policy estimates are probably too low because the assumed level of timber sales is too low.

The remainder of the increase in other general purpose fiscal assistance is distributed between the accounts that make payments to states or territories based on receipts and taxes collected from activities in those jurisdictions.

The New York City seasonal financing loan authority is scheduled to expire June 30, 1978. Under this program, short-term loans of up to \$2.3 billion are provided to the city to ease cash flow problems stemming from the mismatch in timing between revenue collections and expenditure obligations within a year. A major issue to be decided is whether additional federal assistance is required to meet New York City's credit needs after 1978, thereby avert another fiscal crisis. The budget does not include any provision for an extension of federal assistance, but the President has indicated that the situation is being monitored closely, and that new legislation may yet be proposed. Among the alternatives the Congress will be asked to consider are an extension of the seasonal loan program, and provision of federal guarantees of long-term borrowing by, or on behalf of, New York City. It should be noted that an extension of this program would essentially have no budget impact since loans are repaid in the same year that they are made.

INTEREST (FUNCTION 900)

The interest function has two major components: interest on the public debt and other interest. Interest on the public debt is the cost of borrowing to finance the public debt. Other interest is composed mostly of offsetting receipts that reflect on- and off-budget agency interest payments to the Treasury for loans outstanding.

Function Totals

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	38,092	42,384	43,841	46,772	48,691	48,991
Outlays	38,092	42,385	43,841	46,772	48,691	48,991

In fiscal year 1977, budget authority and outlays for the interest function were \$38.1 billion. Estimates by the President and CBO for fiscal years 1978 and 1979 differ, mainly because of diverging estimates of interest on publicly-held debt. In fiscal year 1978 the CBO estimate is \$1.5 billion lower than the President's. In fiscal year 1979 the difference widens to \$2.2 billion.

Interest on the Public Debt

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	41,900	47,400	48,600	52,100	55,100	55,400
Outlays	41,900	47,400	48,600	52,100	55,100	55,400

Interest on the public debt is composed of interest payments to federal agencies (such as trust funds) as well as to the public. Debt held by federal agencies is in the form of special issues, and approximately 95 percent of the interest on special issues is transferred to government trust funds; these payments have historically been offset in function 950. CBO and OMB estimates for interest on special issues are virtually identical. However, the estimates of the interest on publicly-held debt are not as close and account for the difference in the estimates of interest on the public debt. The estimates for interest on publicly-held debt vary mainly because of different assumptions in the amount that publicly-held debt will increase. OMB estimates that publicly-held debt will increase in fiscal year 1978 by \$71.7 billion while CBO assumes that it will increase \$52.9 billion. The smaller deficit assumed by CBO for fiscal year 1978 largely accounts for the differences in the amount of publicly held debt. The CBO estimate of interest on publicly-held debt was within \$3 million of the actual total as reported by the Monthly Treasury Statement for December 1977. ^{7/} Both CBO and OMB appear to have overestimated first quarter spending for interest on special issues. If the CBO estimate appears to be too high, however, the budget impact will be negligible, since lower outlays in function 900 will be offset by lower offsetting receipts in function 950. This is not necessarily true of the President's estimates because the anticipated interest received by trust funds in function 950 does not appear to be consistent with the estimate for interest on special issues. This is discussed further in the section on function 950.

Other Interest

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	-3,808	-5,016	-4,759	-5,328	-6,409	-6,409
Outlays	-3,808	-5,015	-4,759	-5,328	-6,409	-6,409

^{7/} For a discussion of the CBO model for interest on the public debt, see Congressional Budget Office, Estimating Outlays for Interest on the Public Debt, Technical Analysis Paper, October 1977.

For other interest, the CBO estimate reflects a rate of change in fiscal year 1978 comparable to that incurred in fiscal year 1977. By historical standards the President's offsetting receipts estimates for fiscal year 1978 appear to be too low. On the other hand, the CBO receipts estimates for fiscal year 1979 appear to be too low.

ALLOWANCES (FUNCTION 920)

Civilian Agency Payraises

	1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
		CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Budget Authority	---	1,131	1,153	1,256	1,197	1,150
Outlays	---	1,224	1,141	1,359	1,145	1,100

The President's current services estimate for fiscal year 1979 assumes a 6 percent average increase for civilian agency payraises. The Administration supports legislation pending before the Congress to change statutory features of the federal wage system (FWS) that cause departures from the basic prevailing rate principle and result in wage board employees earning more than their private sector counterparts. The Carter budget request assumes enactment of the legislation, which is estimated to save \$45 million from the fiscal year 1979 wage board payroll. The variance between CBO estimates and Administration estimates in fiscal year 1979 occurs because of differences in assumptions about the size of the federal payroll and anticipated payraises (CBO assumes a 7.3 percent payraise in fiscal year 1979). The difference in fiscal year 1978 primarily represents the absorption assumed by the Administration and not assumed by CBO.

The federal personnel management project has recommended legislative changes to split the general schedule into two parts. The new clerical/technical service would require salaries to be determined on a local basis. In addition, the Civil Service Commission is considering extending the comparability base to include fringe benefits. No budgetary impact was recommended for fiscal year 1979 for either project.

Contingencies

President Carter's fiscal year 1979 request for contingencies for other requirements is \$3 billion in budget authority and \$1.7 billion in outlays. This request is higher than last year's budget request of \$1.75 billion in budget authority and \$1.5 billion in outlays. The allowance for contingencies was specified as containing funds to provide aid to students in middle-income families. It could also be used for potential future initiatives, such as programs for urban areas.

UNDISTRIBUTED OFFSETTING RECEIPTS (FUNCTION 950)

This function is composed of intragovernmental and proprietary receipts that cannot be reasonably assigned to any other single function. Intragovernmental receipts are payments from one part of the government to another; proprietary receipts come from the public. The following table shows estimates for the three major programs in this function. Budget authority and outlays are identical for all three.

Function Totals

1977 Actual	1978 Estimates		1979 Current Policy/Services		1979 Request
	CBO Estimate	President's Estimate	CBO Estimate	President's Estimate	
Employer Share, Employee Retirement					
-4,548	-4,836	-5,024	-5,257	-5,157	-5,157
Interest Received by Trust Funds					
-8,131	-9,100	-8,595	-10,000	-9,060	-9,064
OCS Rents and Royalties					
-2,374	-3,400	-2,000	-3,100	-1,800	-1,800
Function Totals					
-15,053	-17,336	-15,619	-18,357	-16,017	-16,021

Employer Share, Employee Retirement

This program consists of government contributions to federal employee retirement plans, (Civil Service, social security, and so forth). Program growth in fiscal year 1978 is the result of federal payraises and the increased contribution rate for the federal government contribution to social

security (5.85 percent in fiscal year 1977 compared to 6.05 percent in fiscal year 1978). Any net change in federal employment will also affect the estimates. The Administration estimate for fiscal year 1978 is probably more accurate than the CBO estimate, having been produced when information on fiscal year 1977 actuals was available. For fiscal year 1979 the Administration's estimate of receipts is too low by \$100-\$200 million because it does not reflect the effects of expected fiscal year 1979 payraises.

Interest Received by Trust Funds

This program represents the income the trust funds earn on their investments in public debt securities. Historically, approximately 95 percent of the interest on special issues is paid to trust funds (see function 900). The CBO estimate of interest received by trust funds is consistent with its estimate of interest on special issues; that is, interest received by trust funds is 95 percent of the interest on special issues. As indicated in function 900, the CBO and OMB estimates for interest on special issues are virtually identical (\$9.6 billion). If the historical relationship were used, the Administration's estimate of interest received by trust funds would be -\$9.1 billion, the same as CBO's. However, their estimate is -\$8.6 billion. This inconsistency apparently occurs because the agencies calculate interest received by trust funds for the Administration, and the agencies do not take into account OMB's estimate of interest on special issues.

OCS Rents and Royalties

Rents and royalties on the Outer Continental Shelf (OCS) are derived from the sale of leases of OCS lands and the royalties from mineral production of OCS. The Department of the Interior has scheduled four sales in fiscal year 1978, and five sales in fiscal year 1979. Scheduled sales have often been delayed, however, because of litigation, administrative problems, and procedural delays. The Administration accounts for this by weighting the value of the sale by a probability that the sale will be held. CBO assumes that some sales will be delayed past the fiscal year, and does not include the values of these sales in its estimate. It does include the total value of the sales still assumed occurring within the fiscal year. In addition, the Administration uses an historical average receipt per acre to determine receipts until specific information about the sale is available. (Generally, the specific information is only available shortly before the sale.) CBO projects each sale individually, based on the available information at the

time. Factors considered in the estimate include such things as potential reserves, future prices, costs of production, and the time required in production. The characteristics of each sale can vary considerably. Because of the uncertainty surrounding the schedule and the value of lease sales, these estimates are highly speculative.

It was projected in August 1977 that, if the Outer Continental Shelf Lands Act Amendments of 1977 (H.R. 1614 and S.9) were enacted at that time, the CBO estimate would change by \$375 million in fiscal year 1978 (to -\$2.8 billion). Because of delay in passage, however, this estimate is subject to change.

CHAPTER V. THE BUDGET OUTLOOK FOR 1980-1983

The goals that the President and the Congress may wish to pursue through the budgetary process cannot be achieved in a single year. Changing the scope and direction of government programs or eliminating the budget deficit can be accomplished only gradually. The federal budget is so large, and its momentum so immense, that there is very little the President or the Congress can do to make the budget next year look much different from that of this year. Over a longer time period, however, significant changes can be made in the size and composition of the federal budget.

To achieve better control over the direction of the federal budget and to improve the government's ability to make major changes in the allocation of resources, the President has directed the Office of Management and Budget (OMB) to establish a multiyear budget planning system. Beginning with the fiscal year 1980 budget, agencies will prepare their budget requests within a three-year planning period. The budget year amounts included in the President's 1979 budget and the detailed long-range projections for 1980 to 1983 summarized in the budget will be the starting point for the Administration's multiyear budget process.

The Congressional Budget Office (CBO), in a February 1977 report to the Congress on advance budgeting, advocated that the Congress move to a multiyear basis for setting budget targets. ^{1/} Since then, CBO has been working with the Budget Committees to help devise a means for formulating budget resolutions on a multiyear basis. A possible starting point for the Budget Committees is the five-year budget projections prepared each year by CBO shortly after the start of the fiscal year. ^{2/}

This chapter discusses the longer-run budget outlook for 1980 to 1983, based on the current spending policies assumed in the Second Concurrent Resolution on the Budget for Fiscal Year 1978 and on the President's budget proposals for fiscal year 1979. The basis for the discussion will be the

^{1/} Congressional Budget Office, Advance Budgeting: A Report to the Congress, February 14, 1977.

^{2/} See, for example, Congressional Budget Office, Five-Year Budget Projections: Fiscal Years 1979-1983, December 1977.

recent CBO budget projections for 1979-1983 and the OMB budget projections for 1980-1983 contained in the 1979 budget.

ECONOMIC ASSUMPTIONS

Inflation, unemployment, and other levels of economic activity have major effects on federal revenues and outlays. In order to develop budget projections, therefore, explicit assumptions must be made about economic trends over the next several years. Table 21 shows the major economic assumptions underlying both the CBO current policy projections of the second budget resolution for 1978 and the OMB projections of the President's budget proposals for fiscal year 1979.

TABLE 21. MAJOR ECONOMIC ASSUMPTIONS FOR BUDGET PROJECTIONS: BY CALENDAR YEARS

	1979	1980	1981	1982	1983
Gross National Product (GNP)					
Current dollar GNP (in billions of dollars)					
CBO projections	2,334	2,582	2,854	3,156	3,465
OMB projections	2,335	2,587	2,858	3,133	3,400
Real GNP (in billions of 1972 dollars)					
CBO projections	1,468	1,538	1,612	1,688	1,751
OMB projections	1,467	1,537	1,614	1,690	1,761
Growth rate of real GNP					
CBO projections	4.7	4.8	4.8	4.7	3.7
OMB projections	4.8	4.8	5.0	4.7	4.2
Unemployment Rate (percent)					
CBO projections	6.2	5.7	5.2	4.7	4.5
OMB projections	5.9	5.4	5.0	4.5	4.1
Consumer Price Index (percent change)					
CBO projections	6.0	5.7	5.5	5.7	5.9
OMB projections	6.1	5.7	5.2	4.7	4.2

The CBO and OMB budget projections are based on very similar assumptions about the rate of real growth of the economy over the next several years. Under both projections, the unemployment rate is expected to decline, although the OMB projections assume the decline will be greater than do the CBO projections. The rate of inflation under the CBO projections would remain at or close to 6 percent throughout the five-year period, whereas the OMB projections assume that the rate of inflation will fall to 4 percent by the end of 1983. The President's 1979 budget recognizes that the OMB assumptions about a decline in both the unemployment rate and the rate of inflation may not be realistic. The budget document notes that the 1983 unemployment target of 4 percent, while desirable, will be particularly difficult to reach simultaneously with the achievement of a lower rate of inflation. ^{3/}

The economic assumptions for 1980 through 1983 should not be construed as forecasts of how the economy is likely to behave. Rather, they should be viewed as two of many possible long-run targets for the economy. The assumed growth rates could be described as optimistic, but not unrealistic. The average rate of growth sustained since World War II has been 3.3 percent. During 1961 to 1966, the economy grew at an average rate of 5.4 percent. The assumed inflation rates, particularly for the OMB projections, might also be described as optimistic.

BUDGET IMPLICATIONS OF THE ECONOMIC ASSUMPTIONS

The budget implications of these economic assumptions are shown in Table 22. The differences in the CBO and OMB projections occur primarily because of (1) the inclusion of the President's 1979 budget proposals in the OMB projections, (2) somewhat different economic assumptions, and (3) different treatment of the effects of inflation on federal spending.

^{3/} The Budget of the United States Government, Fiscal Year 1979, page 32.

TABLE 22. FIVE-YEAR PROJECTIONS OF RECEIPTS AND OUTLAYS:
BY FISCAL YEARS, IN BILLIONS OF DOLLARS

	1979	1980	1981	1982	1983
Budget Receipts					
CBO current policy	460	528	606	692	777
OMB current services	464	529	608	686	759
President's 1979 tax proposals	-24	-23	-24	-28	-33
OMB projections	440	505	584	658	726
Budget Outlays					
CBO current policy	494	528	563	603	651
OMB current services	492	529	552	582	613
President's 1979 spending proposals	8	14	23	31	37
OMB projections	500	543	575	612	650

Under the CBO current policy projections, budget receipts would increase at a rate of 14 percent per year from \$460 billion in fiscal year 1979 to \$777 billion in fiscal year 1983. OMB estimates that total receipts would grow at a little over 13 percent per year, rising from \$464 billion in fiscal year 1979 (assuming extension of the 1977 temporary tax provisions) to \$759 billion in 1983. The effect of the President's 1979 tax proposals would be to lower total revenues by \$24 billion in fiscal year 1979 and by \$33 billion in fiscal year 1983.

CBO projects that current policy outlays would rise from \$494 billion in fiscal year 1979 to \$651 billion in 1983, or about half the annual rate for receipts. Assuming no adjustment for inflation where not explicitly required by law, OMB projects current policy outlays at \$492 billion in fiscal year 1979, rising to \$613 billion in fiscal year 1983. Adding the effects of the President's 1979 spending proposals, OMB projects that budget outlays would rise to \$650 billion in fiscal year 1983. This is essentially the same level of outlays as projected by CBO, adjusting all federal spending for inflation and assuming that inflation remains at roughly 6 percent throughout the five-year period.

OFFSETTING THE FISCAL DRAG

These CBO and OMB budget projections, however, are not consistent with the economic growth objectives set in the second budget resolution for 1978 or the President's 1979 budget, given present trends in monetary policy and nonfederal demands. If the federal budget were actually set at these projected levels over the next several years, it would exert a restrictive influence on the economy because, with rising incomes and continued inflation, federal receipts grow much faster than the outlays put back into the economy in the form of wages, purchases, and benefit payments.

Thus, if the level of unemployment is to be lowered significantly during the next five years through sustained economic growth in the 4.5 to 5.0 percent range annually, the government will have to counteract this restrictive effect (sometimes called "the fiscal drag") by cutting taxes or raising spending relative to the levels under current policy. The President's tax reduction proposals and spending increases from current policy levels in fiscal year 1979 essentially counteract the restrictive effects of a current policy budget, as discussed in more detail in Chapter I. As will be demonstrated below, however, additional tax cuts and/or spending increases will likely be required in 1980 to 1983 to achieve the economic objectives assumed in Table 21.

The estimated size of the tax cuts or spending increases needed to keep the economy growing at the desired rate depends to a great extent on the strength of the nonfederal sectors of the economy. The vitality of private consumption, business investment, state and local government spending, and net exports cannot be predicted accurately. Some additional economic assumptions must be made. To illustrate the requirement for further tax cuts or spending increases, rough estimates have been made assuming one possible scenario for the growth in nonfederal demand, in which nonfederal demand is stronger than the average of the post-World War II years, but somewhat weaker than the peak period of 1961-1966. ^{4/}

Projected Deficits

As discussed above, if the economy were to follow the Administration growth path or the CBO path, receipts would rise faster than outlays, exerting a drag on the economy that would itself tend to reduce economic

^{4/} For further details, see Congressional Budget Office, Five-Year Budget Projections: Fiscal Years 1979-1983, December 1977.

growth. Assuming moderate nonfederal demand, approximately how much would taxes have to be cut or expenditures increased to offset the drag and keep the economy on the target growth path?

Rough answers to this question are shown in Table 23. The current policy margin indicates the excess of receipts over outlays that would develop under current policies if the CBO economic path were realized, while the current services margin reflects the excess of receipts over outlays if the Administration's economic path were realized. The fiscal drag offset refers to the approximate amount that taxes would have to be cut or spending increased to keep the economy growing at the rates under the assumptions stated above. ^{5/} (Note that the offset for the OMB projections has two parts. One part is contained in the fiscal year 1979 proposed budget; the second part would have to be submitted in later budgets or budget amendments.) As long as the margin is less than the fiscal drag offset, the budget would remain in deficit. For example, in fiscal year 1981, the margin in the OMB projections would be \$56 billion. The required fiscal drag offset, however, would be \$97 billion, which means that the deficit would be \$41 billion.

Using CBO assumptions, the budget would still be in deficit in fiscal year 1983. Under the Administration's assumptions, the budget would be in deficit in fiscal year 1982 and achieve a surplus in fiscal year 1983. It appears unlikely under either set of assumptions that the federal budget will be in balance by fiscal year 1981, the President's goal. The Administration appears to recognize this possibility. In his economic report to the Congress, the President notes that balancing the budget by 1981 might require foregoing the further tax reductions beyond fiscal year 1979 that are needed to reach his goal of high employment.

In Table 23, the projected deficit declines more rapidly for the OMB projections than for the CBO projections for two reasons. First, the Administration assumes lower inflation rates, which means that the current dollar GNP target is lower than it is in the CBO assumptions. Consequently, in current dollar terms less fiscal stimulus is required to reach the target. The second reason is that OMB assumes that the composition of federal spending is more stimulative than in the CBO projections. For example, for the OMB projections, the proportion of federal spending for federal purchases is higher.

The budget projections shown in Table 23 are by no means the only possible outcome. If monetary policy becomes more expansionary, if a

^{5/} The precise amount would depend on the specific stimulus measures employed, as described in the last paragraph of this chapter.

TABLE 23. FIVE-YEAR BUDGET PROJECTIONS: BY FISCAL YEARS, IN BILLIONS OF DOLLARS

	1979	1980	1981	1982	1983
CBO Projections					
Current policy margin (from Table 22)	-34	--	43	88	126
Fiscal drag offset (tax cuts or spending increases)	33	61	92	127	145
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Budget Deficit (-) or Surplus	-67	-61	-49	-39	-19
OMB Projections					
Current services margin (from Table 22)	-29	--	56	104	146
Fiscal drag offset (tax cuts and spending increases proposed in 1979 budget)	32 <u>a/</u>	37	47	59	70
Further tax cuts or spending increases required	<u>7 <u>a/</u></u>	<u>23</u>	<u>50</u>	<u>66</u>	<u>66</u>
Budget Deficit (-) or Surplus	-68 <u>a/</u>	-60	-41	-21	10

a/ An additional \$5 to \$10 billion in tax cuts may be required for fiscal year 1979 in order to reach the Administration's growth target. This would make the fiscal year 1979 deficit between \$66 and \$71 billion. For the purposes of this table the additional stimulus needed was assumed to be \$7 billion.

business investment boom develops spontaneously, or if growth in economic activity in the rest of the world stimulates exports from the United States, the need to offset the fiscal drag in a current policy or current services budget could be less than shown above. This, in turn, could lead to a more rapid decline in the budget deficit than shown here. On the other hand, if the economy were subject to shocks of the kind it experienced in the early 1970s, or if business investment fails to grow sufficiently, more expansionary policies and an increasing budget deficit might be needed to reach the output and employment goals discussed earlier.

Furthermore, even if the assumptions about the performance of the nonfederal sectors turn out to be correct, the dollar amount of the fiscal action required to offset the fiscal drag of a current policy or current services budget could vary substantially, depending on which items in the budget are altered to meet the needs of fiscal policy. Generally speaking, increased purchases of goods and services have more impact per budget dollar on output and employment than broadly based tax changes or changes in benefit payment programs. Specially designed tax changes, such as the investment tax credit, can have powerful effects on output and jobs after a lag of one or two years. ^{6/} Thus, it may be possible to design a specific fiscal policy that would have the effect of balancing the budget before 1983.

^{6/} This subject will be discussed more fully in the forthcoming Congressional Budget Office report, Understanding Fiscal Policy.